



GOVERNOR  
BRIAN SCHWEITZER  
STATE OF MONTANA

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Governor's Executive Budget  
Fiscal Years 2010 – 2011

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Revenue Estimates  
General Fund and Select Funds

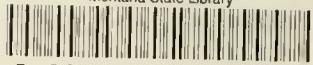
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# Revenue Estimates

2011 Biennium



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GOVERNOR  
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STATE OF MONTANA

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## ECONOMIC OVERVIEW SECTION 1

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GOVERNOR'S OFFICE OF  
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# Economic Overview

2011 Biennium

## Introduction

The executive budget is based on assumptions about economic conditions through the 2011 biennium. This section describes the key economic assumptions that are common to all of the revenue estimates. It also provides some background information by describing long-term trends in the state economy. The estimate sections describing individual revenue forecasts explain how each revenue source is related to economic conditions, and any assumptions that are unique to specific revenue sources.

## National Economic Conditions

The national economy went through a mild recession in 2000 and 2001; it began to recover in 2002 as growth of gross domestic product (GDP) accelerated. The national economy is again experiencing economic downturn, although its extent and duration are as yet unknown. Table 1 summarizes the primary national economic indicators from calendar year (CY) 1998 through 2007 and Global Insight's forecasts for CY 2008 through CY 2011.

Table 1 Gross Domestic Product, National Employment and Inflation					
Calendar Year	Gross Domestic Product (\$billions)	% Change	National Employment (millions)	% Change	Inflation Rate
1998	\$8,747	5.33%	125.923	2.57%	1.55%
1999	\$9,268	5.96%	128.992	2.44%	2.19%
2000	\$9,817	5.92%	131.794	2.17%	3.37%
2001	\$10,128	3.17%	131.830	0.03%	2.82%
2002	\$10,470	3.37%	130.340	-1.13%	1.60%
2003	\$10,961	4.69%	129.996	-0.26%	2.30%
2004	\$11,686	6.62%	131.419	1.09%	2.67%
2005	\$12,422	6.30%	133.695	1.73%	3.37%
2006	\$13,178	6.09%	136.092	1.79%	3.23%
2007	\$13,808	4.77%	137.618	1.12%	2.86%
2008	\$14,400	4.29%	137.496	-0.09%	4.34%
2009	\$14,897	3.45%	136.102	-1.01%	1.31%
2010	\$15,612	4.79%	137.150	0.77%	2.06%
2011	\$16,424	5.20%	139.455	1.68%	2.42%

## Montana Production and Income

Table 2 shows Montana's gross state product (GSP) and personal income. Global Insight forecasts GSP growth to retreat from recent highs, but expects GSP to stabilize by the end of the biennium.

Personal income in Montana grew rapidly in 2000 and 2001, despite the national economic downturn. This growth was due to a combination of increasing economic activity in the state, as reflected in GSP growth, and gains from the stock market boom. Personal income growth slowed in 2002, but rebounded in 2003. Global Insight forecasts personal income to grow at slower rates through the 2011 biennium; however, the growth reduction is expected to be less pronounced than that of 2002, but more drawn out.

**Table 2**  
**Gross State Product and Personal Income**  
**(*\$ millions*)**

Calendar Year	Gross State Product	% Change	Personal Income	% Change
1998	\$19,884	3.88%	\$18,857	6.60%
1999	\$20,408	2.64%	\$19,373	2.74%
2000	\$21,366	4.69%	\$20,716	6.94%
2001	\$22,473	5.18%	\$22,359	7.93%
2002	\$23,564	4.85%	\$22,819	2.06%
2003	\$25,527	8.33%	\$24,178	5.95%
2004	\$27,453	7.54%	\$25,813	6.76%
2005	\$29,965	9.15%	\$27,309	5.79%
2006	\$31,994	6.77%	\$29,152	6.75%
2007	\$34,253	7.06%	\$31,033	6.45%
2008	\$35,857	4.68%	\$32,543	4.87%
2009	\$36,978	3.13%	\$33,947	4.31%
2010	\$39,156	5.89%	\$35,700	5.16%
2011	\$41,161	5.12%	\$37,507	5.06%

### Montana Employment and Population

Table 3 shows Montana actual non-farm employment and population for CY 1998 through CY 2007, and Global Insight's forecasts through CY 2011.

**Table 3**  
**Montana Employment and Population**

Calendar Year	Employment	% Change	Population	% Change
1998	375,692	2.38%	893,221	0.35%
1999	383,483	2.07%	898,361	0.58%
2000	391,358	2.05%	903,666	0.59%
2001	391,650	0.07%	906,720	0.34%
2002	396,025	1.12%	911,362	0.51%
2003	400,767	1.20%	918,736	0.81%
2004	411,375	2.65%	927,834	0.99%
2005	420,983	2.34%	937,273	1.02%
2006	434,883	3.30%	948,172	1.16%
2007	444,583	2.23%	959,205	1.16%
2008	451,386	1.53%	969,772	1.10%
2009	453,789	0.53%	979,733	1.03%
2010	460,812	1.55%	989,243	0.97%
2011	467,781	1.51%	998,375	0.92%

The recession negatively impacted Montana's labor market in 2001 as growth in non-farm employment decreased; however, it rebounded slightly in 2003, and by 2006, employment expanded rapidly at 3.30%. The labor market has again experienced a reduction in growth, and lower growth rates are expected for the duration of the 2011 biennium.

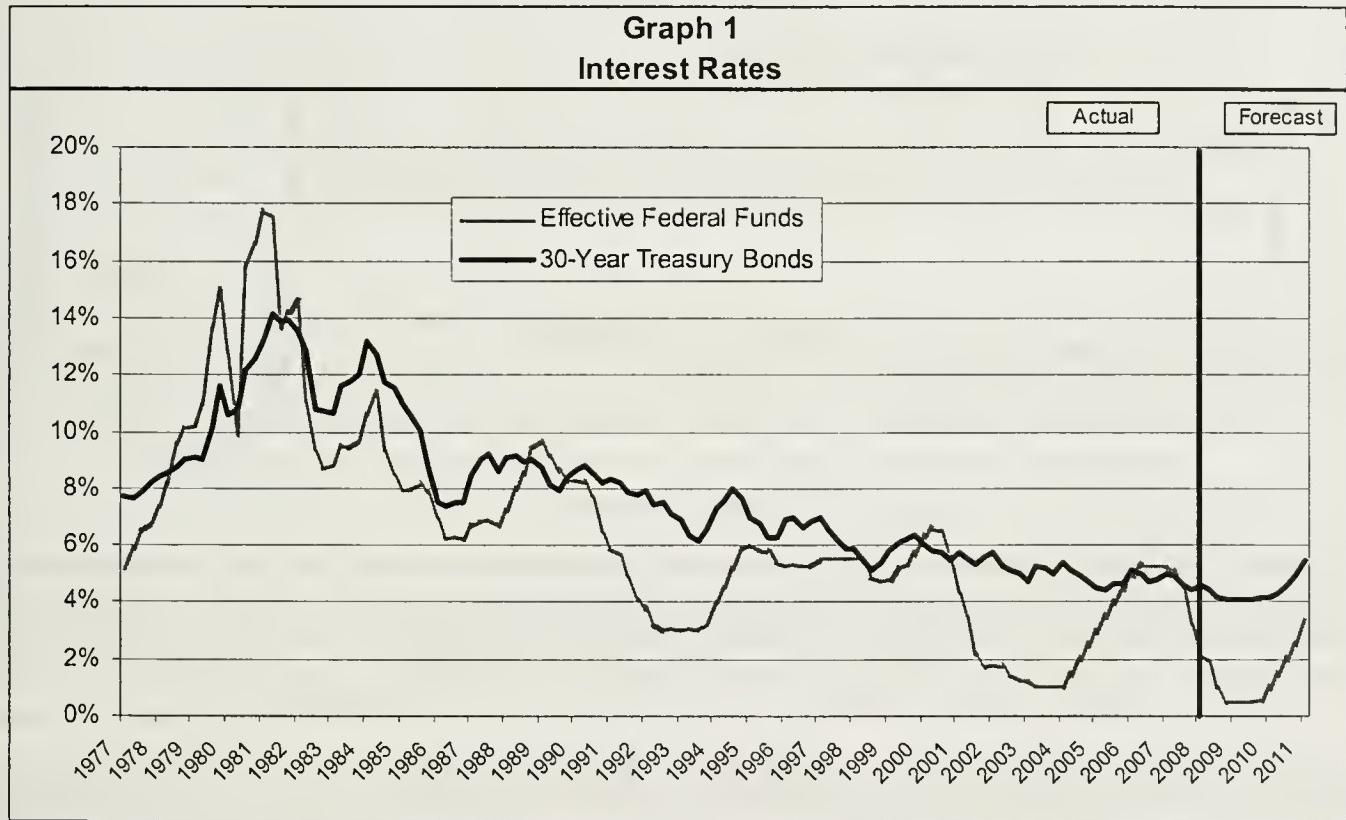
In the second half of the 1990s and early 2000s, Montana's population grew at about one-half of a percent (0.5%) per year. Population growth accelerated in 2003 through 2005 but leveled off by 2008. Global Insight forecasts population growth to continue at a rate of about 1% for this biennium.

## Interest Rates

The state earns interest on trust funds, such as the coal severance tax trust fund, the school trust, and the tobacco settlement trust, and on short-term cash holdings in the general fund and other state funds. The state also pays interest on funds it borrows. Trust fund interest earnings and payments on new long-term debt are affected by changes in long-term interest rates. Most bonds held by the state trust funds are kept for several years; consequently, trust fund interest earnings are affected more by long-term trends than year-to-year variations. On the other hand, interest earnings on cash balances and interest payments on short-term debt are affected by changes in short term interest rates as well as long-term trends.

Graph 1 shows the effective federal funds rate and 30-year U.S. Treasury obligations from 1977 through the third quarter of 2008 and Global Insight's forecasts through CY 2011.

**Graph 1**  
**Interest Rates**



Interest rates hit historic highs in 1981, with both short-term and long-term interest rates at over 14%. Interest rates have decreased since 1981. Short-term interest rates are more volatile than long-term rates. Short-term rates fall when the Federal Reserve Open Market Committee (FOMC), attempting to stimulate the economy, decreases the target federal funds rate (the rate banks charge each other to meet overnight reserve requirements). When the FOMC wants to dampen inflationary expectations, they act by increasing their target federal funds rate and short-term interest rates rise.

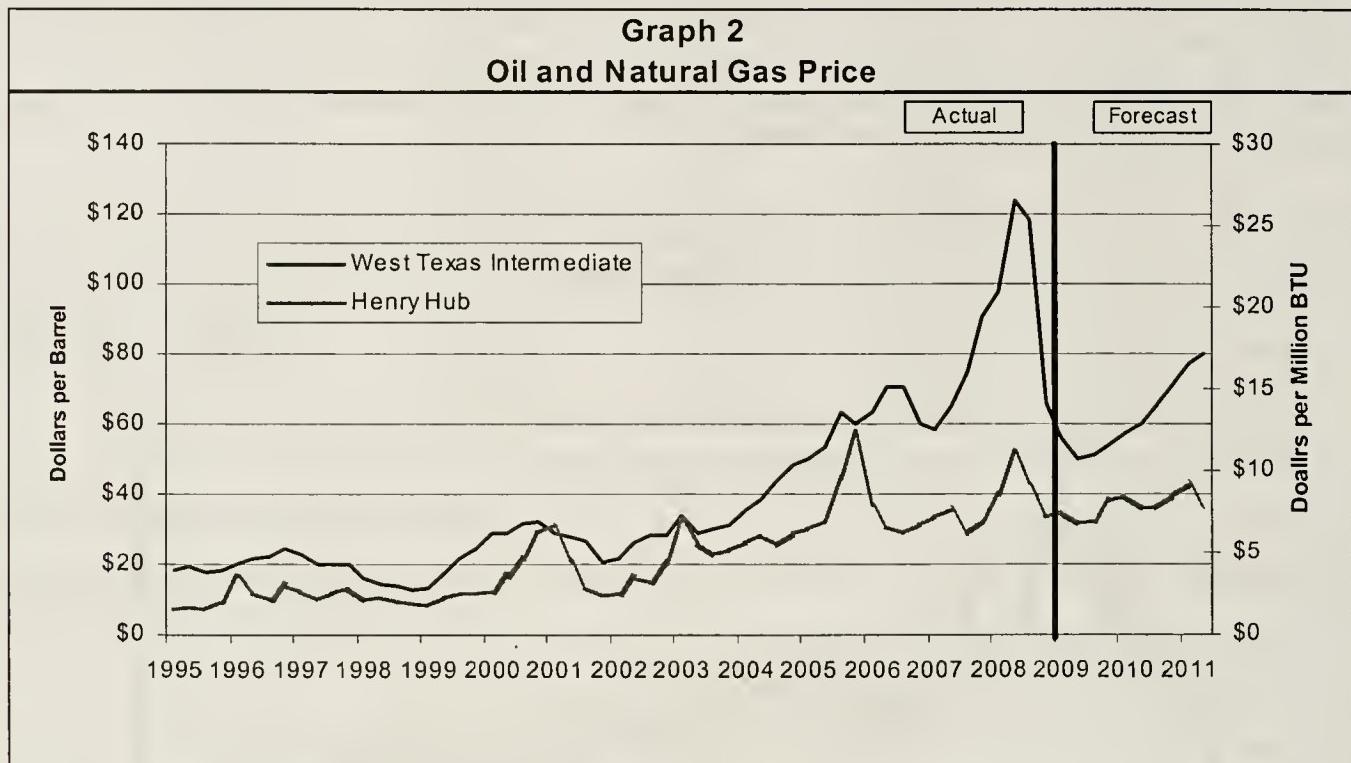
Interest rates began rising in the second quarter of 2004 and continued to rise through the first half of 2006. In recent months, the FOMC has lowered short term interest rates to very low levels, and it is anticipated the FOMC will most likely continue to decrease their target federal funds rate until CY 2009. It is anticipated rates will remain at low levels until sometime in CY 2010, before starting to slowly increase.

## Oil and Natural Gas Prices

Oil and natural gas prices affect the state budget in several specific ways. The state taxes oil and natural gas production, receives royalties from production on state lands, shares the royalties from production on federal land located in the state, and taxes the income from production. Energy prices affect the state economy in general, with

higher prices translating into higher incomes for the energy producing sector and higher costs for the rest of the economy.

Graph 2 shows national oil and natural gas prices from CY 1995 through the third quarter of CY 2008, and Global Insight's forecasts through CY 2011. It shows the price of a standard grade of a barrel crude oil, West Texas Intermediate, measured on the left axis and a price index of a common natural gas benchmark, Henry Hub, per million BTU.



Oil and natural gas prices have become more volatile since 1995. Energy consumption is relatively insensitive to prices in the short-run. As a result, short-run changes in supplies can produce large price swings. In the long-run, energy users respond to higher prices by conserving and using energy more efficiently. Oil and gas producers respond to sustained higher prices by increasing exploration and development activities which increase supplies.

From about 1987 through 1999, oil and natural gas prices were relatively low as world supplies were plentiful. However, for several reasons, oil and natural gas prices have risen significantly since 1999. First, world supplies have been stagnant. Oil and gas fields developed in the 1970s are being depleted and relatively low oil prices have limited further exploration. Second, world demand has steadily grown as higher incomes in developing countries, particularly China, have enabled consumers to afford cars, appliances, and other energy using consumer goods. Third, short-term supply disruptions such as war, political instability in producing regions, and hurricane damage have led to short-term price spikes.

Both oil and natural gas prices peaked in the second quarter of 2008 and thereafter dropped. Oil is forecast to continue to drop as the world energy demand remains weak in the near term. Oil prices are forecast to reach a low of \$50 per barrel in the second quarter of CY 2009. Oil prices are then anticipated to slowly rise and average \$73 for CY 2010, and end the year at \$80 per barrel.

## Population

Table 4 shows the 1980, 1990, and 2000 census counts, and Global Insight's 2010 forecast, of Montana population grouped into ten-year age groups and the percent of the total population in each group. For 1990, 2000 and 2010, it also shows the ten-year survival percentage for the groups aged 10 and up. This is the ratio of the number of people in an age group to the number in the next lower age group ten years earlier. For the 80 and over age group, it is the ratio

of people 80 or over to the number of people 70 or over ten years earlier. For the total population, it is the ratio of total population to the total ten years earlier.

**Table 5**  
**Age Structure of Montana Population**

Age	1980 Census		1990 Census		2000 Census		2010 Forecast	
	Persons	%	Persons	%	Persons	%	Persons	%
0-9	125,315	15.9%	125,603	15.7%	116,609	12.9%	122,228	12.4%
10-19	136,959	17.3%	120,285	15.0%	140,404	15.5%	124,239	12.6%
20-29	145,395	18.4%	104,491	13.0%	109,966	12.2%	134,864	13.6%
30-39	111,036	14.0%	134,798	16.8%	118,349	13.1%	116,698	11.8%
40-49	77,291	9.8%	104,085	13.0%	148,918	16.5%	129,594	13.1%
50-59	74,029	9.4%	71,729	8.9%	109,839	12.2%	147,800	14.9%
60-69	64,756	8.2%	66,959	8.3%	70,879	7.8%	105,491	10.7%
70-79	37,348	4.7%	49,789	6.2%	54,778	6.1%	63,569	6.4%
80+	18,263	2.3%	24,201	3.0%	33,924	3.8%	44,762	4.5%
Total	790,391	100.0%	801,939	100.0%	903,666	100.0%	989,243	100.0%

### Aging Population

In 1980, the 20 to 29 age group was the largest. People in this age group were born between 1951 and 1960, the final years of the post-World War II baby boom and the years immediately after. They make up the largest age group in all four ten-year periods. The second largest age group was people born between 1981 and 1990, who were between 0 and 9 in 1990. This second peak in the age distribution is caused by the children of the baby boomers and is often called the echo boom.

As the baby boomers have aged and life expectancies have increased, the population as a whole has become older. In 1980, 34% of the population was 40 or over and 15% was 60 or over. In 1990, 40% of the population was 40 or over and 18% was 60 or over. By 2000, the percentage 40 or over had increased to 46% and the percentage 60 or over remained at 18%. This aging of the population mirrors the national trend and will continue. In 2010, the 40 or over age group is forecast to remain the largest with nearly 50% of the population; however, more baby boomers will move into the 60 or over age group.

### **Economic Structure**

Table 6 shows Montana's GSP divided into eleven sectors. Actual GSP, divided by sector, is shown for CY 2000 and CY 2004, and forecast amounts are shown for CY 2008 and CY 2012. For sectors that have grown faster than the economy as a whole, the percent of total output has increased over time. For sectors that have not grown as fast as the economy, the percent has decreased.

**Table 6**  
**Montana Gross State Product**  
(\$ millions)

Economic Sector	2000	%	2004	%	2008	%	2012	%
Other Services	\$4,991	23.4%	\$6,482	23.6%	\$8,668	24.2%	\$10,507	24.4%
Finance, Insurance, & Real Estate	\$3,409	16.0%	\$4,297	15.7%	\$5,441	15.2%	\$6,639	15.4%
Transp., Comm., & Util.	\$2,495	11.7%	\$3,110	11.3%	\$4,066	11.3%	\$4,779	11.1%
State and Local Gov't, Schools	\$2,464	11.5%	\$3,032	11.0%	\$3,811	10.6%	\$4,491	10.4%
Retail Trade	\$1,665	7.8%	\$2,038	7.4%	\$2,555	7.1%	\$2,954	6.9%
Manufacturing	\$1,277	6.0%	\$1,383	5.0%	\$1,559	4.3%	\$1,796	4.2%
Wholesale Trade	\$1,230	5.8%	\$1,534	5.6%	\$1,855	5.2%	\$2,129	4.9%
Construction	\$1,190	5.6%	\$1,669	6.1%	\$2,080	5.8%	\$2,670	6.2%
Federal Government	\$856	4.0%	\$1,059	3.9%	\$1,195	3.3%	\$1,350	3.1%
Agriculture, Forestry, & Fishing	\$753	3.5%	\$1,345	4.9%	\$1,476	4.1%	\$1,674	3.9%
Mining	\$720	3.4%	\$1,019	3.7%	\$2,639	7.4%	\$3,499	8.1%
Military	\$316	1.5%	\$485	1.8%	\$512	1.4%	\$583	1.4%
Total	\$21,366	100.0%	\$27,453	100.0%	\$35,857	100.0%	\$43,071	100.0%

The Montana economy has increasingly become a goods-producing economy rather than a services-producing economy, in part due to higher commodity prices. Four sectors produce services almost exclusively: 1) finance, insurance, and real estate; 2) retail trade; 3) wholesale trade; and 4) other services. Four sectors produce physical goods almost exclusively: 1) manufacturing; 2) agriculture, forestry and fishing; 3) mining; and 4) construction. The other four sectors produce a mix of goods and services. Together, the service-producing sectors accounted for 53% of state income in 2000, and they are predicted to account for 52% of state income in 2012. The goods-producing sectors accounted for 18% of state income in 2000 and are forecast to make-up 22% of state income in 2012. The mixed sectors accounted for 29% of state income in 2000 and are predicted to account for 26% of state income in 2012.

Table 7 shows actual Montana wage and salaries divided into fifteen sectors<sup>1</sup> for CY 2000 and CY 2004, and Global Insight's forecasted amounts for CY 2008 and CY 2012.

**Table 7**  
**Montana Wage and Salary Income**  
(\$ millions)

Economic Sector	2000	%	2004	%	2008	%	2012	%
State & Local Government, Schools	\$1,652	16.6%	\$1,966	16.1%	\$2,387	14.9%	\$2,797	15.0%
Educational & Health Svcs	\$1,265	12.7%	\$1,658	13.6%	\$2,129	13.3%	\$2,576	13.8%
Retail Trade	\$971	9.7%	\$1,167	9.6%	\$1,480	9.3%	\$1,631	8.8%
Construction and Mining	\$848	8.5%	\$1,167	9.6%	\$1,926	12.0%	\$2,203	11.8%
Professional & Business Svcs	\$802	8.1%	\$1,032	8.5%	\$1,583	9.9%	\$2,062	10.8%
Manufacturing	\$716	7.2%	\$685	5.6%	\$869	5.4%	\$1,022	6.5%
Transportation, Warehousing & Utilities	\$601	6.0%	\$647	5.3%	\$776	4.9%	\$893	5.6%
Federal Government	\$566	5.7%	\$689	5.6%	\$773	4.8%	\$855	5.4%
Financial Activities	\$559	5.6%	\$745	6.1%	\$979	6.1%	\$1,150	5.8%
Leisure & Hospitality	\$544	5.5%	\$690	5.7%	\$920	5.8%	\$1,024	5.5%
Wholesale Trade	\$507	5.1%	\$588	4.8%	\$778	4.9%	\$877	7.5%
Other Services	\$325	3.3%	\$395	3.2%	\$495	3.1%	\$537	2.9%
Information	\$234	2.3%	\$274	2.2%	\$317	2.0%	\$338	1.8%
Agriculture, Forestry & Fishing	\$206	2.1%	\$232	1.9%	\$294	1.8%	\$345	1.9%
Military	\$168	1.7%	\$262	2.1%	\$279	1.7%	\$320	2.4%

<sup>1</sup> The growth in total wages and salaries for a sector is due to a combination of growth of employment in that sector and growth of average wages. These differ between sectors.

Wages and salaries for professional and business services have consistently grown faster than wages in the economy as a whole, and are expected to continue along this trend.

## Risks

In summary, the executive budget is based on assumptions about economic conditions through the 2011 biennium. However, the recent economic turmoil makes all such assumptions inherently uncertain. Many of the revenue estimates rely on the Global Insight forecasts of economic conditions; if conditions change, both Global Insight's forecast and actual revenues collected will change.

Global Insight includes both an optimistic and pessimistic scenario in its forecast service. The pessimistic scenario includes the following assumptions:

- The financial crisis worsens
- Credit markets remained clogged
- Reduced consumer spending
- Housing market continues to fall

In the October forecast, Global Insight assigned a probability of 25% to the pessimistic scenario occurring. If actual economic conditions over the next several years follow the pessimistic scenario, then state revenue collections for FY 2009 through FY 2011 will almost certainly be lower than currently anticipated.





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## GENERAL FUND REVENUE ESTIMATES SUMMARY SECTION 2

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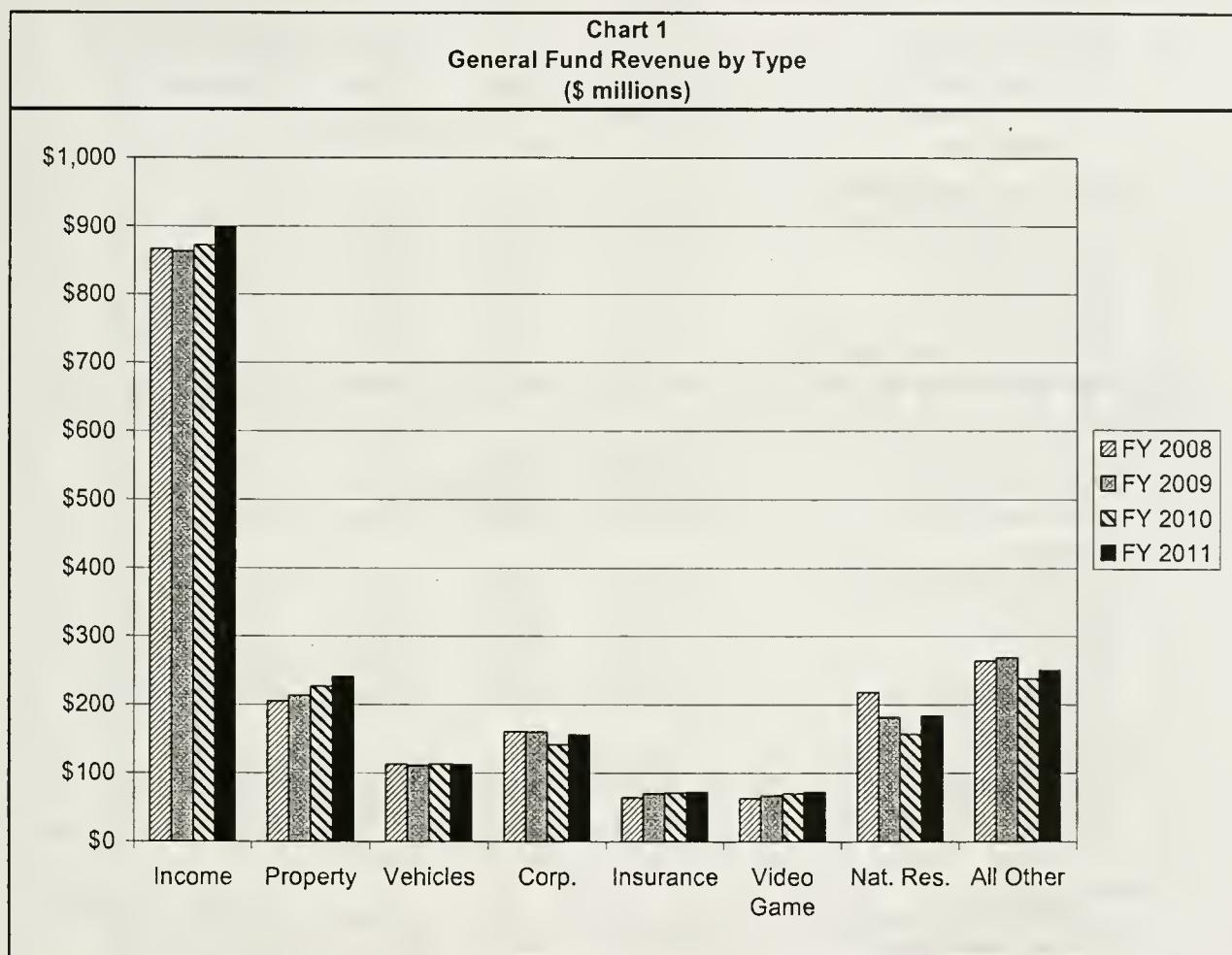


# General Fund Revenue Estimate Summary

2011 Biennium

The state general fund accounts for all the state's financial resources, except for those legally mandated to be accounted for in another fund. Chart 1 divides general fund revenue into eight groups. The seven largest revenue groups accounted for 87.3% of general fund revenue in FY 2008, with each source contributing in excess of \$63 million.

Chart 1  
General Fund Revenue by Type  
(\$ millions)



Individual income tax is the largest revenue source. Individual income tax revenue is forecast to be \$898.883 million in FY 2011, accounting for 46.0% of the general fund revenue. Property tax revenue is forecast to be \$240.687 million, representing 12.3% of the general fund revenue. Corporate license tax revenue is forecast to be \$155.864 million in FY 2011, representing 8.0% of general fund revenue. Vehicle revenue includes vehicle taxes and registration fees. The natural resource category is comprised of oil and natural gas production taxes, U.S. mineral royalties, coal severance tax, metal mines tax, electrical energy tax and wholesale energy transaction tax.

Table 1 on the following page shows the 34 general fund revenue categories. The six major taxes, which each bring in more than \$49 million per year, comprise 77.9% of the general fund revenue in FY 2011. As a group, natural resource taxes contribute 9.4% of the general fund in FY 2011. All other revenue groups contribute less than 3.4% of the total general fund revenue in FY 2011.

**Table 1**  
**General Fund Revenue - FY 2008 through FY 2011**  
(\$ millions)

Revenue Category	Actual ----- Forecast -----				FY 2011 % of Total General Fund
	FY 2008	FY 2009	FY 2010	FY 2011	
<b>MAJOR TAXES</b>					
Individual Income Tax	\$866.638	\$862.808	\$872.159	\$898.883	45.8%
Property Tax*	\$205.036	\$213.568	\$226.535	\$240.687	12.3%
Vehicle Taxes and Fees	\$112.486	\$110.901	\$113.320	\$112.729	5.7%
Corporation License Tax	\$160.342	\$159.781	\$141.435	\$155.864	7.9%
Insurance Premiums Tax	\$64.004	\$52.955	\$49.349	\$49.669	2.5%
Video Gambling License Tax	\$63.134	\$67.531	\$69.840	\$72.424	3.7%
<b>Total Major Taxes</b>	<b>\$1,471.639</b>	<b>\$1,467.544</b>	<b>\$1,472.637</b>	<b>\$1,530.256</b>	<b>77.9%</b>
<b>NATURAL RESOURCE TAXES</b>					
Oil and Gas Production Taxes	\$149.994	\$118.480	\$98.332	\$122.015	6.2%
U.S. Mineral Royalties	\$36.389	\$31.838	\$28.523	\$31.499	1.6%
Coal Severance Tax	\$11.894	\$12.878	\$12.177	\$12.268	0.6%
Metalliferous Mines Tax	\$10.774	\$9.200	\$8.843	\$8.935	0.5%
Electrical Energy Tax	\$5.179	\$4.844	\$4.862	\$4.831	0.2%
Wholesale Energy Transactions Tax	\$3.856	\$4.038	\$4.092	\$4.107	0.2%
<b>Total Natural Resource Taxes</b>	<b>\$218.086</b>	<b>\$181.278</b>	<b>\$156.829</b>	<b>\$183.655</b>	<b>9.4%</b>
<b>INTEREST EARNINGS</b>					
Coal Trust Interest Earnings	\$28.855	\$28.358	\$28.453	\$29.644	1.5%
Treasury Cash Account Interest	\$30.783	15.21	7.69	13.81	0.7%
<b>Total Interest Earnings</b>	<b>\$59.637</b>	<b>\$43.563</b>	<b>\$36.148</b>	<b>\$43.449</b>	<b>2.2%</b>
<b>LIQUOR TAXES</b>					
Liquor Excise and License Taxes	\$14.925	\$15.942	\$17.013	\$18.157	0.9%
Liquor Profits	\$8.775	\$9.537	\$10.418	\$11.169	0.6%
Beer Tax	\$3.124	\$3.197	\$3.269	\$3.339	0.2%
Wine Tax	\$1.829	\$1.953	\$2.066	\$2.180	0.1%
<b>Total Liquor Taxes</b>	<b>\$28.654</b>	<b>\$30.628</b>	<b>\$32.767</b>	<b>\$34.845</b>	<b>1.8%</b>
<b>TOBACCO TAXES</b>					
Cigarette Tax	\$36.004	\$36.266	\$36.631	\$36.977	1.9%
Tobacco Products Tax	\$4.699	\$4.641	\$4.688	\$4.732	0.2%
Tobacco Settlement Funds	\$3.808	\$3.768	\$3.804	\$3.837	0.2%
<b>Total Tobacco Taxes</b>	<b>\$44.511</b>	<b>\$44.674</b>	<b>\$45.124</b>	<b>\$45.547</b>	<b>2.3%</b>
<b>SALES TAXES</b>					
Telecommunications Excise Tax	\$22.350	\$21.584	\$21.463	\$21.643	1.1%
Institutional Reimbursements	\$15.335	\$14.635	\$15.760	\$16.119	0.8%
Accommodations Tax	\$13.390	\$13.985	\$14.618	\$15.278	0.8%
Health Care Facility Utilization Fees	\$5.610	\$5.399	\$5.310	\$5.223	0.3%
Rental Car Sales Tax	\$3.157	\$3.352	\$3.559	\$3.779	0.2%
<b>Total Sales Taxes</b>	<b>\$59.842</b>	<b>\$58.955</b>	<b>\$60.709</b>	<b>\$62.042</b>	<b>3.2%</b>
<b>OTHER TAXES AND REVENUES</b>					
Lottery	\$11.029	\$11.320	\$11.772	\$12.831	0.7%
Highway Patrol Fines	\$4.049	\$4.279	\$4.353	\$4.406	0.2%
Investment Licenses and Permits	\$6.514	\$5.573	\$5.868	\$6.359	0.3%
Contractors' Gross Receipts Tax	\$5.063	\$3.240	\$3.302	\$3.347	0.2%
Driver's License Fee	\$3.866	\$3.266	\$4.428	\$3.607	0.2%
Rail Car Tax	\$2.064	\$2.097	\$2.095	\$2.102	0.1%
Estate Tax	0.00	\$0.000	\$0.000	\$0.000	0.0%
Other Revenue	\$38.566	\$29.287	\$31.422	\$31.683	1.6%
Fire reserve transfer**		\$31.750			
<b>Total Other Taxes and Revenues</b>	<b>\$71.150</b>	<b>\$90.812</b>	<b>\$63.240</b>	<b>\$64.335</b>	<b>3.3%</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,953.519</b>	<b>\$1,917.455</b>	<b>\$1,867.454</b>	<b>\$1,964.130</b>	<b>100.0%</b>

\*Does not include Governor's budget recommendations for property tax mitigation (page 3-15)

\*\*Does not include fire supplemental of \$3 million for FY 2008



GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## MAJOR GENERAL FUND TAXES SECTION 3

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING



# Individual Income Tax

2011 Biennium

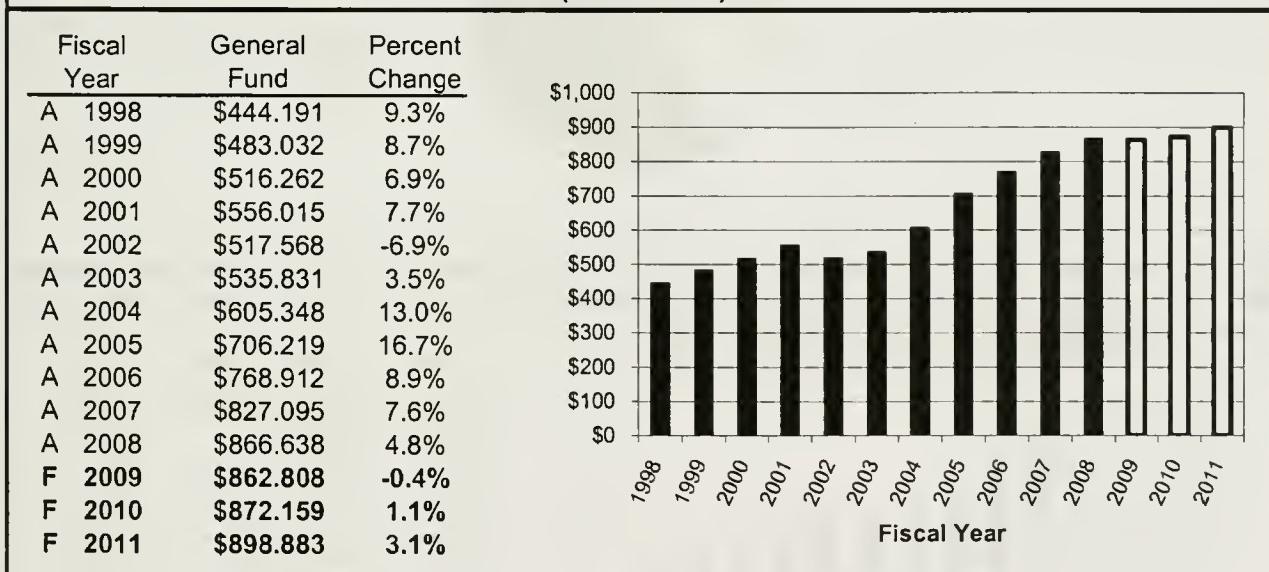
## Revenue Description

Title 15, Chapter 30, MCA, imposes a graduated individual income tax ranging from 1% to 6.9% on gross income, less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently by the state and federal government. Itemized deductions for federal and state income tax are similar; however, while all state income tax may be deducted in calculating federal taxable income, the amount of federal income tax that may be deducted in calculating state taxable income is limited. Montana also allows a number of credits that may reduce taxpayers' liabilities.

Individual income tax is the largest source of revenue to the general fund, accounting for 45.8% of total general fund revenue in FY 2008. With the exception of FY 2005, all individual income tax revenue is allocated to the general fund. In FY 2005, about \$1.1 million was allocated to pay for the Department of Revenue's new data processing system.

Table 1 shows actual individual income tax revenue for FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011. Revenues are expected to decrease slightly in FY 2009 and increase gradually in FY 2010. Although growth in FY 2011 is expected to increase, it is forecast to be relatively low.

**Table 1**  
**Individual Income Tax Revenue**  
**(\$ millions)**



## Risks

- The estimate relies on the Global Insight forecasts for much of the data used in the model. If economic conditions change significantly over the next months, Global Insight's forecast will likely change as well.
- Global Insight includes both an optimistic and pessimistic scenario in its forecast service. The pessimistic scenario includes the following assumptions:
  - The financial crisis worsens
  - Credit markets remained clogged
  - Reduced consumer spending
  - Housing market continues to fall
- In the October forecast, Global Insight assigns a probability of 25% to the pessimistic scenario occurring. If actual economic conditions over the next several years follow the pessimistic scenario, then individual income tax collections for FY 2009 through FY 2011 are likely to be lower than forecast.

- Due to the dependence of Montana adjusted gross income on Federal adjusted gross income, changes in the federal tax code could have a significant effect on Montana income tax receipts. With a new administration in Washington D.C. beginning January 2009, federal tax changes for individual income taxes are probable. Holding all other factors constant, lower federal taxes result in higher state tax collections, while higher federal taxes reduce state tax collections.

### **Income by Category**

Taxpayers report income on eleven lines on the tax return and these eleven income types are forecast separately. They can be organized into five general categories: wage, salary and tip income; ownership income; taxable retirement income; gains and losses; and interest income. Graph 1 shows these categories and their relative proportion of total taxable income.

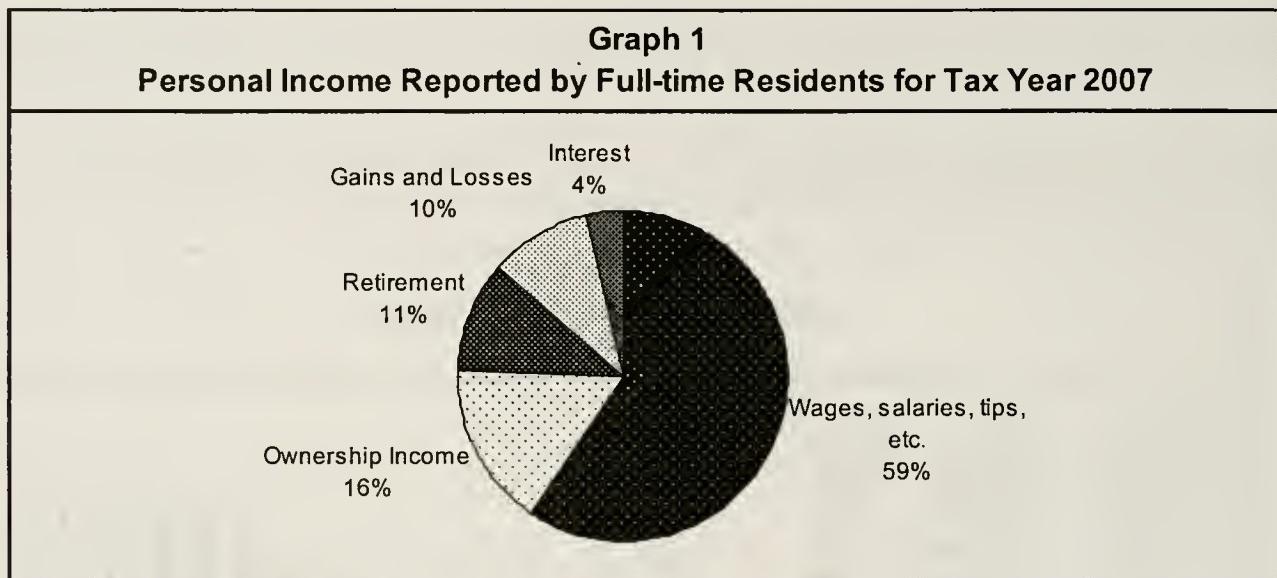


Table 2 provides more detail by showing the amount of income reported for CY 2007 by full-year residents and the percent of total reported income that category represents. The last column gives the average percent of total reported income for each category for the prior 11 years.

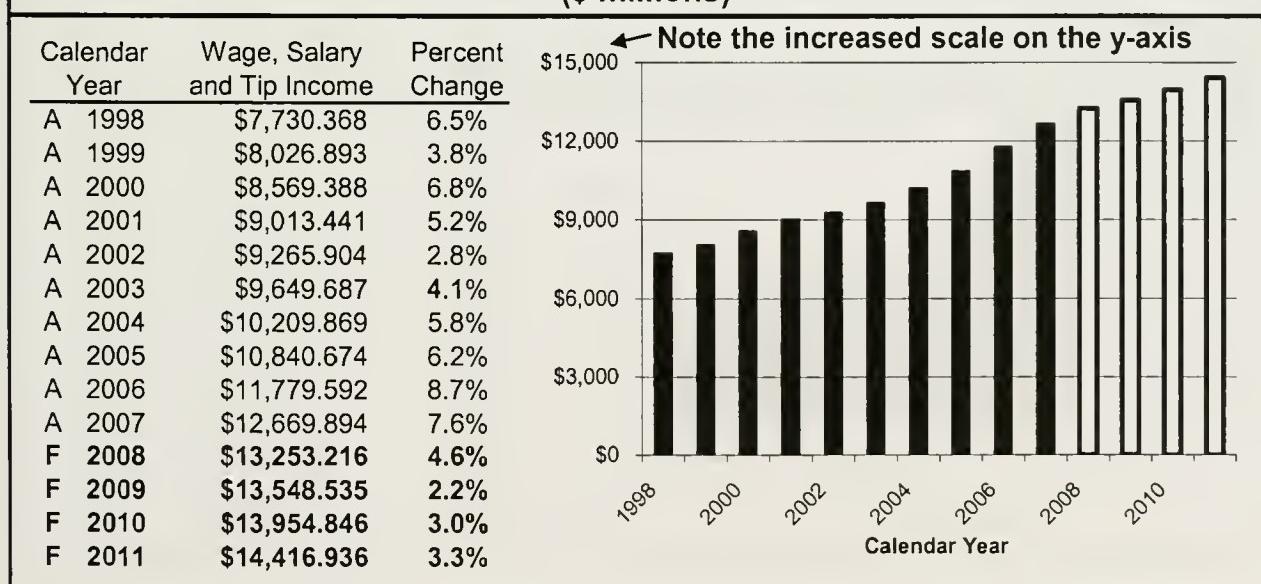
**Table 2**  
**Calendar Year Income**  
**(*\$ millions*)**

Type of Income	CY 2007 Income	% CY 2007 Income	% CY 96-06 Income
Labor Income			
Wages, salaries, tips, etc.	\$12,669.894	59.4%	64.1%
Ownership Income			
Rents, royalties, partnerships, etc.	\$1,976.847	9.3%	7.5%
Net business income	\$762.060	3.6%	4.5%
Dividend income	\$619.819	2.9%	2.5%
Net farm income	-\$155.989	-0.7%	-0.9%
Other income	\$214.366	1.0%	-0.3%
Retirement			
Taxable portion of Soc. Sec.	\$508.637	2.4%	1.9%
Taxable Pensions, IRAs	\$1,812.789	8.5%	8.7%
Gains and Losses			
Capital gain or (loss)	\$2,088.579	9.8%	7.6%
Supplemental gains or (losses)	\$66.367	0.3%	0.4%
Interest			
Interest income	\$756.826	3.5%	4.0%
<b>TOTAL INCOME</b>	<b>\$21,320.194</b>	<b>100.0%</b>	<b>100.0%</b>

Tables 3-11 list historical and forecast income for most of the sub-categories above. At the end of each table, the significant factors for the forecast are listed, as is an estimate of the effect on the general fund of a 1% change in the income source. Forecast growth rates for the income sources, and deductions, reductions and credits are summarized in Table 12. All charts depict income reported by full-year residents.

#### Labor income

**Table 3**  
**Wage, Salary and Tip Income**  
**(*\$ millions*)**



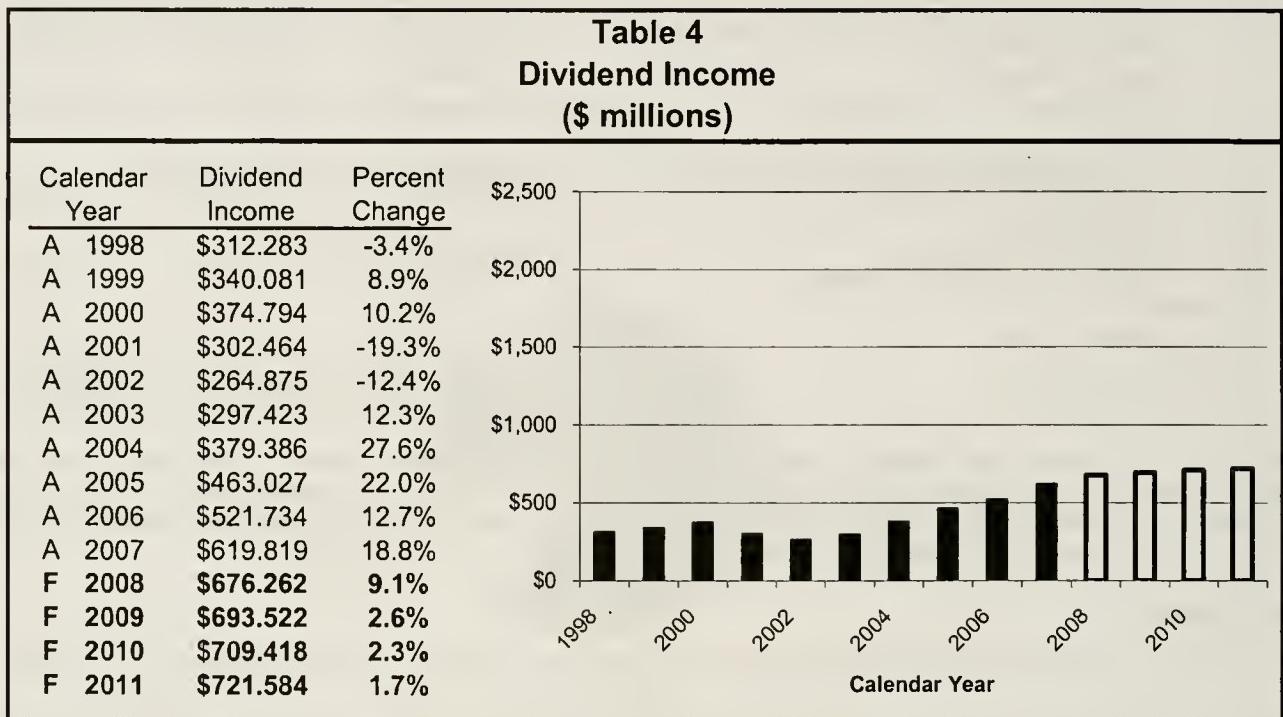
### **Significant Factors**

- Montana employment
- Average annual wages for major sectors of the state economy
- One percent change in Wages and Salary Income results in \$7.5 million change in revenue collections

Note the fairly steady growth with sensitivity to national economic conditions, indicated by the slow growth during the recession of 2000 and a similar downturn beginning in 2007.

### **Ownership income**

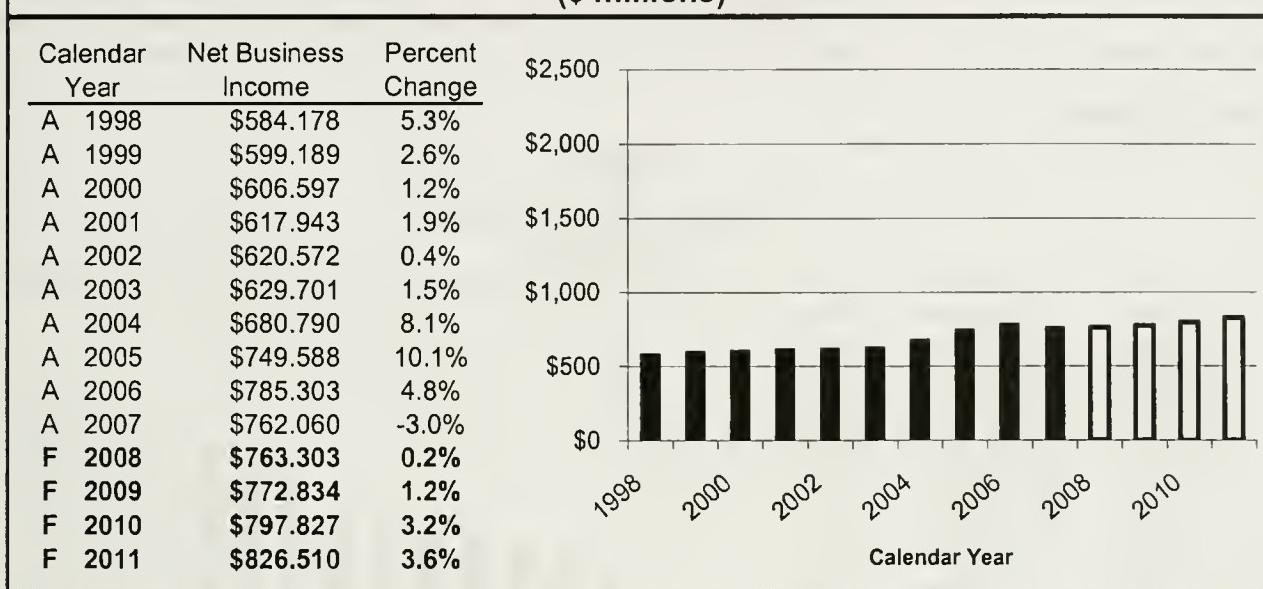
**Table 4**  
**Dividend Income**  
**(*\$ millions*)**



### **Significant Factors**

- Montana dividends are highly correlated with their national equivalents
- One percent change in Dividend Income results in a \$0.3 million change in revenue collections

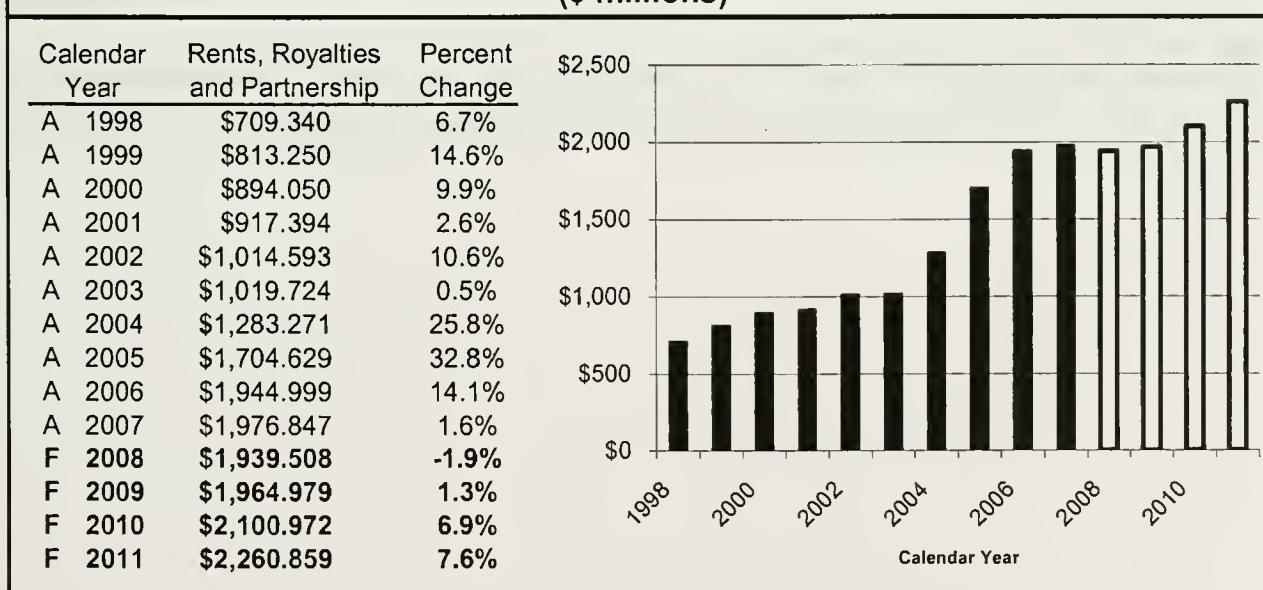
**Table 5**  
**Net Business Income**  
(\$ millions)



#### Significant Factors

- The previous year's growth rate
- Growth rate of national proprietors' income
- Montana net business income is highly correlated with its national equivalent
- One percent change in business income results in a \$0.4 million change in revenue collections

**Table 6**  
**Rents, Royalties & Partnership Income**  
(\$ millions)



#### Significant Factors

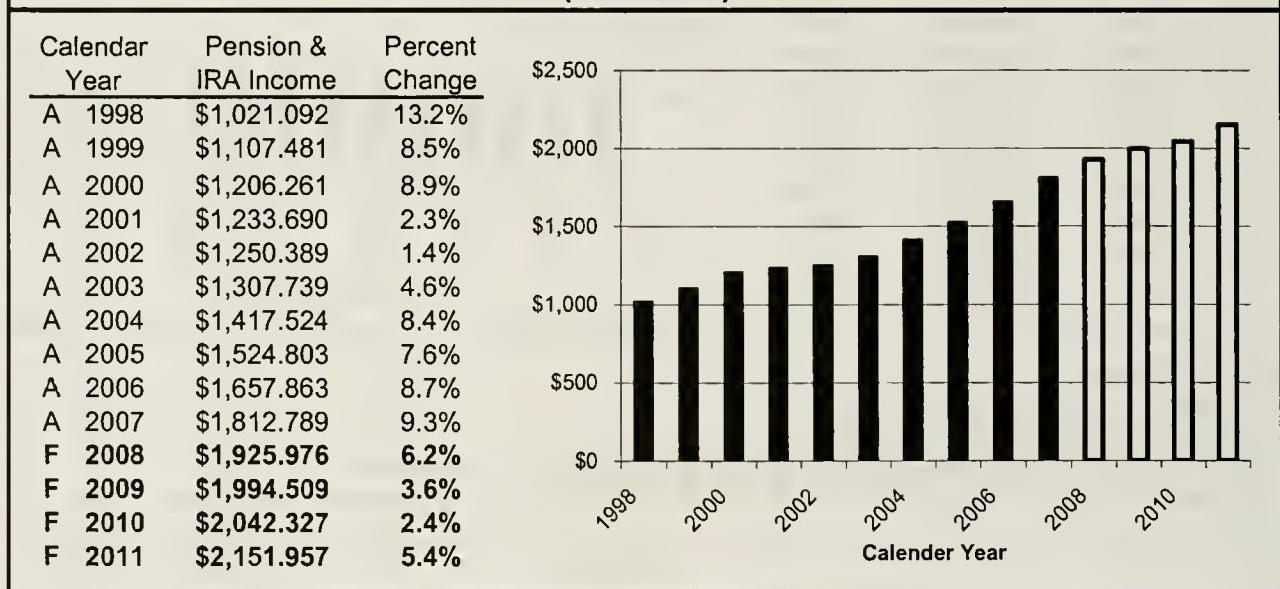
- The growth rate of rents and royalties income shows a strong relationship with national proprietors' income
- Mineral royalties have generally been reported in this category, and higher mineral, oil, and natural gas prices have contributed to recent growth

- By SB 439 (2007 Session), withholdings are required for mineral royalty payments; this is likely to increase revenue
- One percent change in rents and royalties income results in \$1.0 million change in revenue collections

Net farm income has been negative in recent years and is expected to stay negative. It is projected using forecast bee and wheat prices from the U.S. Department of Agriculture and a time trend. The other income line is a catch-all for income that does not fit on the other lines. It is usually small and is forecast to grow at a rate based on historic trends.

#### Retirement income

**Table 7**  
**Pension and IRA Income**  
**(\$ millions)**

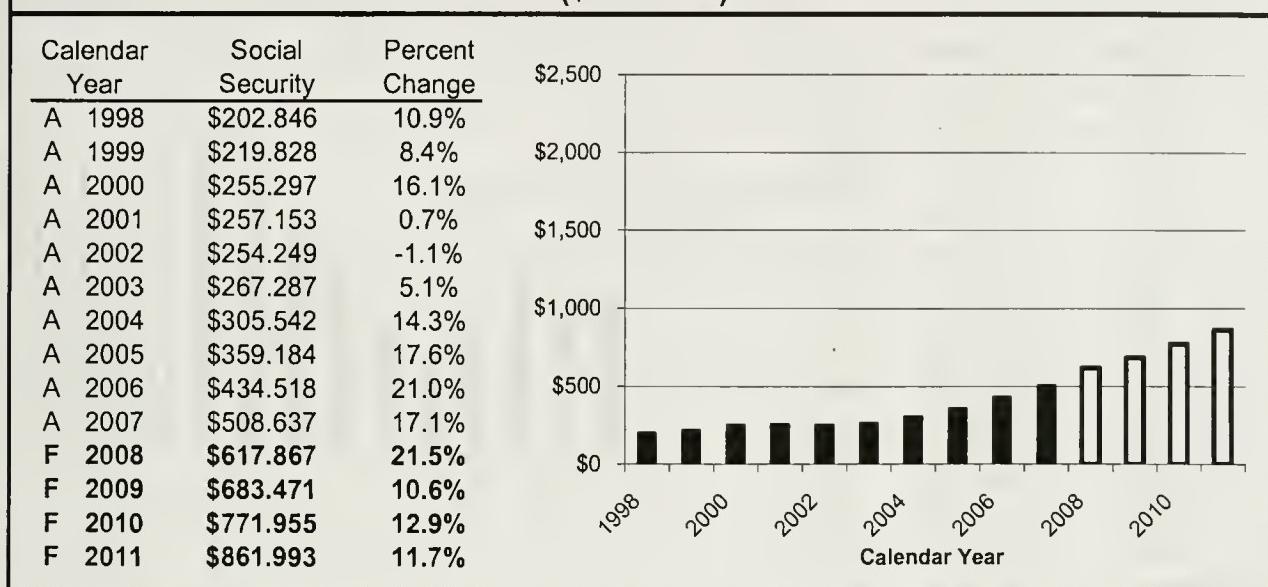


#### **Significant Factors**

- Prior years' S&P 500 stock price index
- Last year's U.S. gross domestic product
- One percent change in pensions and IRA income results in \$0.8 million change in revenue collections

Growth of pension and IRA income slowed during the recession of 2000, but has otherwise remained fairly consistent.

**Table 8**  
**Taxable Social Security Income**  
**(*\$ millions*)**



#### **Significant Factors**

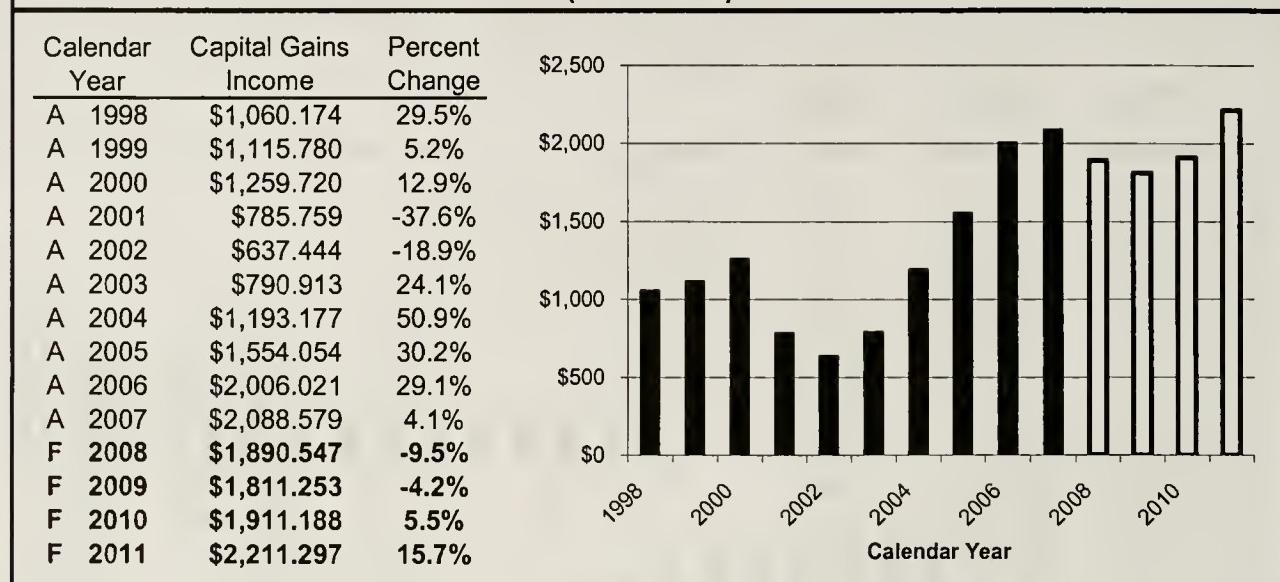
- Inflation rates
- Montana population age 65 and older
- One percent change in Taxable Social Security Income results in \$0.3 million change in revenue collections

Like pension and IRA income, social security income flat-lined during the recession of 2000; it has since then grown quite rapidly. Because this income source is strongly dependent upon Montanans age 65 and older, and this population is expected to increase, the strong growth should continue.

#### **Gains and Losses**

Capital gains and supplemental gains are gains or losses from the sale of assets. Gains or losses on the sale of property used in the owner's trade or business, mineral rights, and business inventories are usually reported as supplemental gains. Gains or losses on the sale of other assets are generally reported as capital gains.

**Table 9**  
**Capital Gains Income**  
(\$ millions)

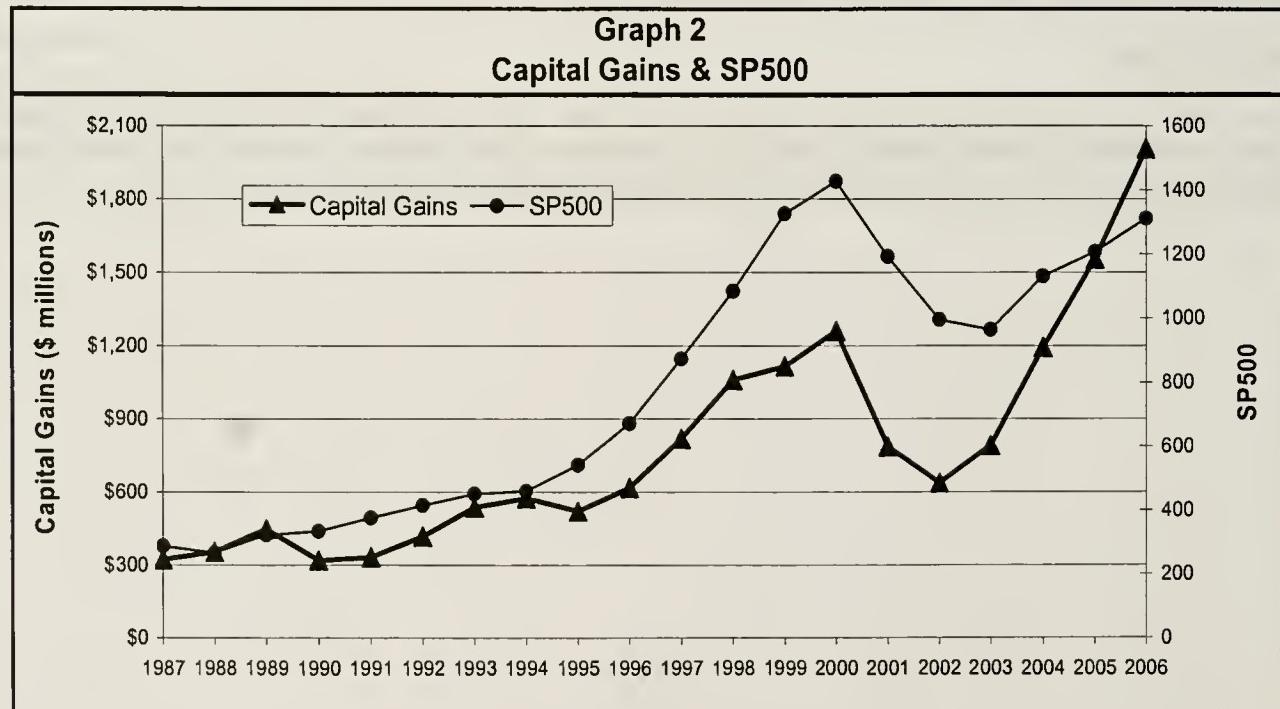


#### Significant Factors

- Stock prices serve as a general indicator of the value of assets; only a portion of capital gains are from sales of stocks, but stocks are the only assets for which reliable price data are available
- One percent change in capital gains income results in \$1.1 million change in revenue collections

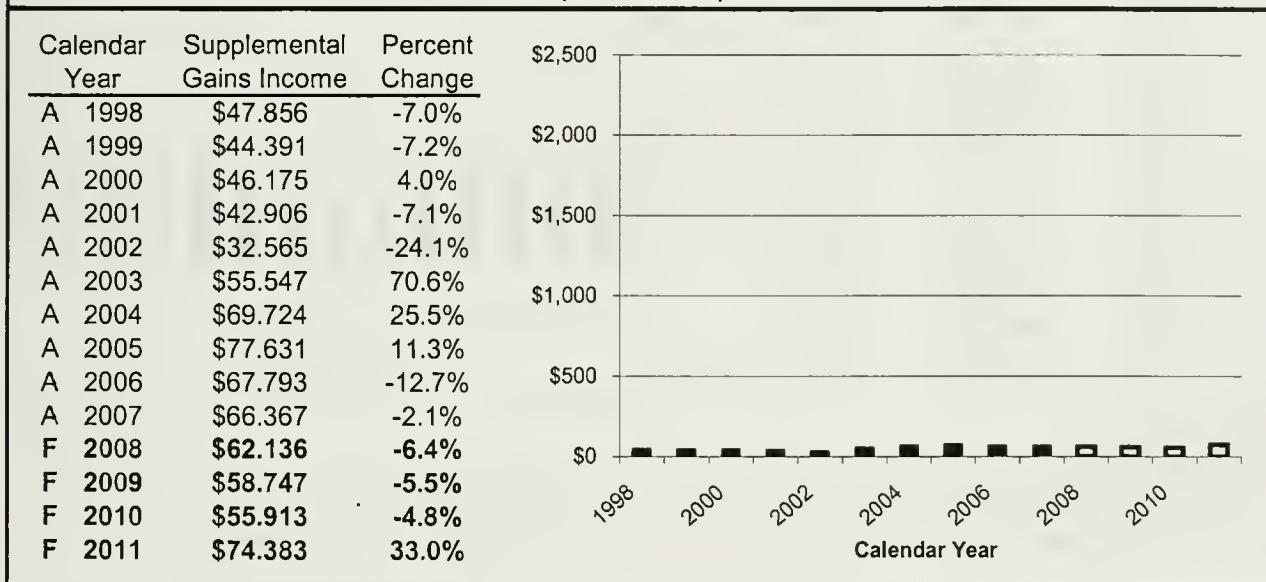
In Table 9, note the decline in capital gains income following the stock market crash of CY 2000. The relationship between stock prices and capital gains is depicted in Graph 2:

**Graph 2**  
**Capital Gains & SP500**



The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many types of gains from asset sales. The legislation included language which sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006, Congress passed legislation extending the lower capital gains rates through 2010. In the past, people with assets that have appreciated have responded to changes in capital gains rates by selling assets to realize gains during periods when tax rates are lower. This is almost certain to have happened again, and part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following the tax rate cuts in order to realize the gains.

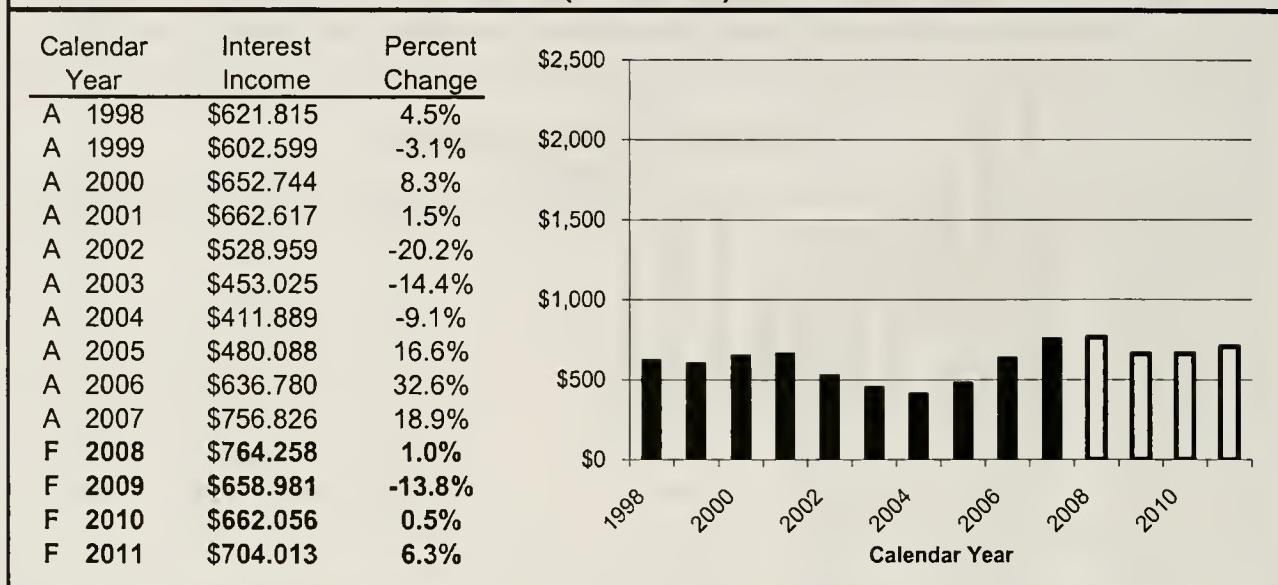
**Table 10**  
**Supplemental Gains Income**  
**( $\$$  millions)**



The swings in growth of supplemental gains income are tempered by the fact that it is small, contributing less than one percent of the overall revenue.

## Interest income

**Table 11**  
**Interest Income**  
**(*\$ millions*)**



### **Significant Factors**

- Growth in taxpayers' savings
- The current and last year's average rates on three-month certificates of deposits
- One percent change in interest income results in \$0.3 million change in revenue collections

### **Forecast Methodology**

Income tax revenue estimates are based on a computer program that calculates tax liability for individual income tax returns. Base line assumptions are listed in Table 12.

#### **Before program implementation**

- Growth rates for income and deductions must be estimated
- Future tax parameters, such as rate brackets and caps on deductions, must be calculated based on forecasts of inflation and any changes in state or federal law

#### **The operating program**

- Reads each full-year resident return in the latest year's income tax returns database
- Calculates current year's tax liability for each return
- Applies an annual growth rate to each of the income and deduction line items and calculates the next year's tax liability
- Repeats process, growing income and deductions and calculating tax liability, for each year of the forecast

Once the simulation program has estimated future years' tax liability for full-year resident taxpayers who filed in the past year, adjustments are made to produce projected fiscal year collections for all filers.

#### **Adjustments are made for**

- Projected population growth
- Changes to state and federal tax law
- Calendar year tax liability and additional revenue from less than full-time residents
- Reduced revenue due to credits
- Conversion from calendar year to fiscal year collections

- Accounting for revenue from audits, penalties and interest not already included in the base calculations
- Other adjustments, such as additional refunds

## **Data Sources**

Revenue data is from SABHRS and the Department of Revenue. Estimated audit revenue for future years is from the Department of Revenue. Past employment and wage data is from the Bureau of Labor Statistics, U.S. Department of Labor. Commodity market estimates for future years is from the Economic Research Service, U.S. Department of Agriculture. Inflation estimates used in estimating certain future tax bracket and other tax data were from the Congressional Budget Office. Employment, wage, interest rates, and other economic data forecasts are from Global Insight's October 2008 forecast.

**Table 12**  
**Historic and Projected Growth Rates for Line Items**

INCOME ITEMS	Historical Growth Rates					Projected Growth Rates							
	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
<b>FEDERAL AGI ITEMS</b>													
Wages, salaries, tips, etc.	5.18%	2.80%	4.14%	5.81%	6.18%	8.66%	7.56%	4.60%	2.23%	3.00%	3.31%	3.85%	3.94%
Interest income	1.51%	-20.17%	-14.36%	-9.08%	16.56%	32.64%	13.52%	0.98%	-13.78%	0.47%	6.34%	6.04%	0.45%
Dividend income	-19.30%	-12.43%	12.29%	27.56%	22.05%	16.74%	11.86%	9.11%	2.55%	2.29%	1.71%	-0.09%	-0.62%
Net business income	1.87%	0.43%	1.47%	8.11%	10.11%	4.76%	-2.96%	0.16%	1.25%	3.23%	3.60%	4.85%	5.09%
Capital gain or (loss)	-37.62%	-18.88%	24.08%	50.86%	30.25%	29.08%	4.12%	-9.98%	-9.35%	3.45%	18.53%	14.07%	12.50%
Supplemental gains or (losses)	-7.08%	-24.10%	70.57%	25.52%	11.34%	-12.67%	-2.10%	-6.38%	-5.45%	-4.82%	33.03%	-3.77%	-4.91%
Rents, royalties, partnerships, etc.	2.61%	10.60%	0.51%	25.84%	32.83%	14.10%	1.64%	-1.89%	1.31%	6.92%	7.61%	10.64%	9.33%
Taxable IRAs and pensions	2.27%	1.35%	4.59%	8.40%	7.57%	8.73%	7.61%	6.24%	3.56%	2.40%	5.37%	5.84%	6.13%
Taxable portion of Soc. Sec.	0.73%	-1.13%	5.13%	14.31%	17.56%	20.97%	17.06%	21.48%	10.62%	12.95%	11.66%	12.74%	9.18%
Net farm income	-45.38%	-39.86%	7.18%	4.51%	9.80%	-39.87%	11.44%	-4.03%	13.03%	7.54%	4.09%	4.48%	7.66%
Other income	-1.48%	6.45%	-20.06%	-7.02%	-3.32%	1.45%	479.53%	-10.17%	-9.23%	-8.45%	-7.79%	-7.23%	-6.77%
Adjustments to Income	1.28%	23.21%	15.69%	7.28%	7.28%	7.73%	9.79%	3.14%	5.20%	6.35%	6.99%	7.33%	7.52%
<b>ADDITIONS:</b>													
Interest on state, county, bonds	4.78%	-2.97%	4.01%	6.47%	-0.07%	50.43%	10.98%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal income tax refunds	10.24%	21.34%	3.88%	5.72%	-7.04%	-41.50%	-0.93%	7.73%	7.73%	7.73%	7.73%	7.73%	7.73%
Other additions	0.73%	2.63%	18.14%	15.70%	-25.27%	30.65%	-7.99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>REDUCTIONS:</b>													
Farm risk management account	0.00%	0.00%	1309.10%	-98.89%	-100.00%	0.00%	0.00%	na	na	na	na	na	0.00%
Elderly interest exclusion	0.09%	-7.40%	-7.41%	-5.24%	4.97%	14.21%	16.41%	13.96%	-7.14%	0.76%	6.88%	8.25%	0.92%
Exclusion for savings bonds	-12.81%	-30.61%	-20.93%	-7.70%	12.93%	na	na	na	na	na	na	na	0.25%
Exempt pension income	3.30%	2.98%	0.96%	0.96%	-1.30%	-1.30%	4.02%	7.12%	30.18%	22.19%	6.06%	-1.03%	-3.04%
Unemployment income	17.40%	31.53%	9.50%	-21.39%	-16.24%	10.03%	5.36%	8.82%	8.10%	7.49%	6.97%	6.52%	6.12%
Medical savings account excl.	21.63%	20.56%	14.70%	21.74%	3.43%	6.57%	6.57%	9.96%	9.06%	8.30%	7.67%	7.12%	6.65%
Family education account excl.	61.24%	60.42%	20.15%	13.52%	-6.55%	7.60%	-18.84%	4.42%	-8.29%	1.39%	1.39%	1.39%	1.39%
First-time homebuyers act. excl.	23.47%	1.76%	14.94%	-18.84%	4.42%	-19.78%	10.51%	12.06%	9.15%	8.13%	8.13%	8.13%	8.13%
Other reductions	6.46%	5.44%	6.83%	10.51%	12.06%	8.13%	9.15%	8.13%	8.13%	8.13%	8.13%	8.13%	8.13%

**Table 12**  
**Historic and Projected Growth Rates for Line Items (continued)**

ITEMIZED DEDUCTIONS:	Historical Growth Rates						Projected Growth Rates						
	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Medical Insurance premiums	8.97%	9.89%	-1.99%	7.25%	6.03%	6.47%	3.15%	6.34%	6.34%	6.34%	6.34%	6.34%	6.34%
Medical deduction	9.95%	9.71%	6.12%	9.27%	5.73%	2.67%	4.87%	6.97%	6.97%	6.97%	6.97%	6.97%	6.97%
Long-term care insurance	4.14%	12.98%	8.86%	6.81%	3.53%	12.69%	13.92%	6.42%	6.03%	5.69%	5.38%	5.11%	4.86%
Balance of federal tax	2.51%	-2.155%	-5.09%	-11.00%	5.21%	86.93%	23.55%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Additional federal tax	61.28%	-31.92%	17.64%	0.55%	-20.23%	4.36%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Property taxes	3.70%	10.66%	5.99%	7.44%	0.05%	6.39%	4.34%	6.11%	6.11%	6.11%	6.11%	6.11%	6.11%
Motor veh. and other deductible taxes	-18.12%	11.63%	3.00%	10.16%	26.69%	-2.26%	-18.95%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Home mortgage interest	7.03%	4.15%	-1.05%	4.24%	9.81%	7.44%	14.52%	7.87%	7.87%	7.87%	7.87%	7.87%	7.87%
Deductible investment interest	-9.45%	-22.57%	-12.23%	12.34%	38.17%	42.27%	9.89%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contributions	3.57%	13.05%	-2.26%	11.23%	6.55%	3.58%	42.01%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%
Child/dependent care expenses	-7.59%	1.57%	2.18%	-9.36%	-3.22%	-3.49%	5.73%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%
Casualty and theft losses	-56.20%	41.33%	-8.03%	-11.86%	23.74%	5.25%	-36.59%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Tier 1 - Miscellaneous	9.07%	3.81%	0.45%	9.13%	8.53%	-1.56%	10.58%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%
Tier II - Miscellaneous	-0.26%	13.45%	67.30%	-31.04%	7.25%	-1.56%	-40.36%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gambling Losses	-14.98%	0.14%	-3.55%	22.97%	28.25%	8.20%	12.62%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
<b>CREDITS</b>													
Capital gains tax credit							\$15,361,935	\$19,599,422	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly homeowner/renter tax credit							\$7,853,725	\$7,482,107	-6.32%	16.33%	1.47%	1.44%	1.42%
Physician credit for rural practice	\$284,382	\$405,666	\$338,643	\$336,829	\$232,400	\$208,980	\$4,49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
College contribution credit	\$165,451	\$166,369	\$148,470	\$171,903	\$206,886	\$246,533	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Charitable endowment credit	\$7,410,957	\$1,610,509	\$2,138,608	\$2,502,605	\$2,491,431	\$3,164,764	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly care credit	\$64,247	\$27,493	\$21,041	\$27,911	\$55,257	\$53,497	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Other state/foreign tax credit	\$13,501,613	\$14,013,510	\$14,479,498	\$17,407,297	\$18,854,161	\$23,043,200	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Contractor's gross receipts credit	\$649,632	\$613,178	\$776,635	\$804,843	\$1,024,102	\$1,657,462	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Investment credit	\$4,765	\$1,756	\$1,756	\$1,756	\$1,756	\$1,756	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alternative energy systems credit	\$40,193	\$228,283	\$300,489	\$445,967	\$640,431	\$677,311	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Energy conservation credit	\$201,445	\$2,440,965	\$3,098,479	\$5,623,446	\$7,933,033	\$7,933,033	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Alternative energy production credit	\$3,220	\$13,312	\$11,174	\$16,982	\$11,090	\$20,858	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Recycling credit	\$102,071	\$66,369	\$121,309	\$307,678	\$410,815	\$757,543	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Alternative fuels credit	\$2,924	\$8,845	\$8,845	\$8,845	\$25,283	\$19,109	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Montana capital company credit	\$170,001	\$159,288	\$159,288	\$159,288	\$49	\$25	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Dependent care assistance credit	\$538	\$3,897	\$8,484	\$6,208	\$8,818	\$9,755	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Employee health insurance credit	\$93,618	\$61,113	\$137,398	\$427,460	\$517,110	\$559,023	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Infrastructure users fee credit	\$71,980	\$74,777	\$17,810	\$97,748	\$51,297	\$200,670	\$4.49%	7.83%	7.83%	7.26%	6.77%	6.77%	6.77%
Historic building preservation credit					\$1,050	\$2,715	\$1,000	\$4.49%	\$17,201	\$4.49%	7.83%	7.26%	6.77%
Developmental disability account credit					\$365	\$969	\$372,890	\$4.49%	\$372,890	\$4.49%	7.83%	7.26%	6.77%
Empowerment zone credit					\$808,488	\$195,285	\$808,488	\$4.49%	\$808,488	\$4.49%	7.83%	7.26%	6.77%
Other Credits													

# Property Tax

2011 Biennium

## Revenue Description

Property tax revenue is collected directly from mills levied on property, and indirectly from non-levy revenue sources. The state general fund receives property tax revenue from school equalization mill levies of 22, 33, and 40 mills (commonly referred to as the 95 mill levy) levied statewide and 1.5 mills levied on property in counties with colleges of technology. The tax rates for each class of property are set in Title 15, Chapter 6, Part 1, MCA.

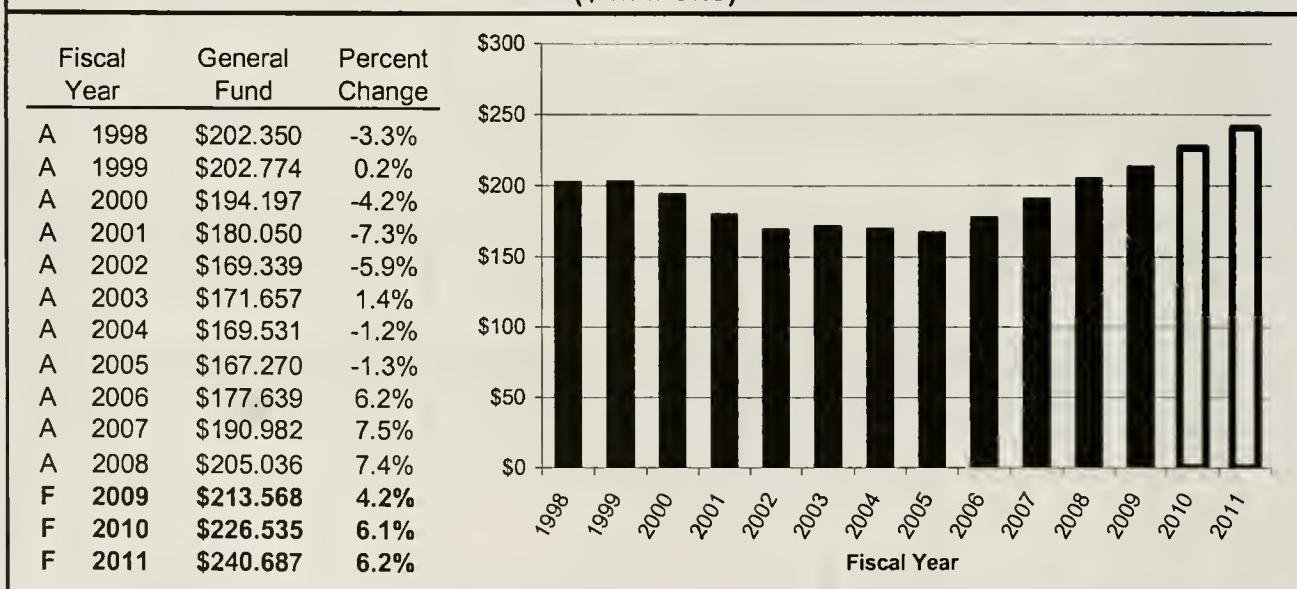
The state receives revenue from non-levy sources that are shared with local taxing jurisdictions based on the share of mills levied in the respective taxing jurisdictions. Non-levy revenues consist of coal gross proceeds, federal forest receipts, and other smaller revenue sources.

Property tax is the largest revenue source statewide. The state, local governments, school districts, and special improvement districts collected over \$1.2 billion in property taxes and related fees in FY 2008. Table 1 shows that state mills and non-levy revenues generated \$205.036 million in state general fund revenue in FY 2008.

Tax year 2009 is the first year of a new six-year reappraisal cycle for agricultural land, commercial and residential real property, and forest land. Current law fixes tax rates and exemptions at their tax year 2008 values and requires that the increase in assessed value due to reappraisal be added in one-sixth increments each year of the reappraisal cycle per 15-7-111, MCA. Reappraisal data are not yet available as such this estimate used the reappraisal simulation developed with the Legislative Fiscal Division to estimate reappraisal growth on revenue pending the availability of final reappraisal data.

Table 1 shows actual general fund revenue from property tax for FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011.

**Table 1**  
**Property Tax Revenue**  
**(\$ millions)**



## Organization

The presentation of this forecast starts with an estimate of property tax and non-levy revenue that accrues to the state. A step-by-step presentation of the factors used to forecast property tax revenue is presented after the forecast methodology section.

## Estimate Summary

Table 2 summarized the estimated general fund property tax revenue with adjustments for non-levy revenues and protested property taxes. This estimate is the current law anticipated level of revenue.

<b>Table 2</b> <b>Summary of General Fund Property Tax Revenue</b>				
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Property Tax Mill Levy (95 & 1.5)	194,979,735	202,330,059	215,221,101	228,830,630
Non-Levy Revenue:				
Coal Gross Proceeds	6,311,107	7,141,010	7,746,852	8,765,561
Federal Forest Reserves	2,650,501	5,296,000	4,766,000	4,290,000
All Other	1,883,314	1,883,314	1,883,314	1,883,314
Subtotal Non-Levy Revenue	10,844,923	14,320,324	14,396,166	14,938,875
Protested Property Taxes	(806,259)	(3,082,389)	(3,082,389)	(3,082,389)
<b>Total Property Tax Revenue</b>	<b>205,018,398</b>	<b>213,567,994</b>	<b>226,534,878</b>	<b>240,687,116</b>

## Property Tax Mitigation recommended in Governor's budget

The Governor is recommending that the class 4 residential property taxes be mitigated for the effects of reappraisal. The revenues the Governor's budget assumes will be available for expenditure are reduced by the estimate of the reduction in revenues associated with this mitigation. Table 3 presents the estimate of the incremental state property tax revenue due to class 4 reappraisal. The estimate is calculated by subtracting the revenue generated in a zero reappraisal growth scenario from the 36% reappraisal growth scenario developed with the Legislative Fiscal Division.

<b>Table 3</b> <b>Incremental Growth in Property Tax Revenue due to Reappraisal</b>				
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Present Law (with Reappraisal)	\$205,018,398	\$213,567,994	\$226,534,878	\$240,687,116
Baseline - No Reappraisal Growth	<u>205,018,398</u>	<u>213,567,994</u>	<u>221,137,835</u>	<u>228,646,781</u>
<b>Increase in Property Tax Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,397,043</b>	<b>\$12,040,335</b>

## **Forecast Methodology**

The property tax forecast is built by estimating growth rates for assessed market value, converting the assessed value into taxable value by applying statutory tax rates and exemptions. Taxable values are then adjusted for local abatements and tax increment financing districts. Revenue accruing to the state is then estimated for each fiscal year based on calendar year taxable value. A separate forecast is made for each non-levy revenue source. These estimates are added to calculate general fund property tax revenue.

There are six main steps followed to calculate the property tax revenue generated from the 95 total mill levy and the 1.5 mill levy:

**Step 1:** Estimate the growth rate for the assessed value of each class of property.

Historical valuation trends are generally used as the foundation for estimating future growth; adjustments are then made with the assistance of the Department of Revenue (DOR) appraisal staff. Adjustments are made to address major new investments or the effects of known changes in tax rates or valuations. Growth rates are determined for each class of property.

Table 4 is a summary of assessed market value and market value growth for all property classes except 3, 4, 15 and 16. Classes 3 & 4 will be presented in greater detail below when reappraisal is discussed. New tax classes 15 and 16 have been assigned no value or growth during the forecast period since the amount of property that will be created in these classes is currently unknown.

**Table 4**  
**Summary of Assesed Market Value**  
**( \$ Millions )**

	Class 1 Net Proceeds		Class 2 Gross Proceeds		Class 5 Rural Co-Op & Pollution Control		Class 7 Locally Assesed Utilities		Class 8 Business Equipment	
Calender Year	Adjusted Assessed Value	Annual Percent Change	Annual Assessed Value	Annual Percent Change	Annual Assessed Value	Annual Percent Change	Annual Assessed Value	Annual Percent Change	Net Assessed Value	Annual Percent Change
A 1998			\$8,781	-2.9%			\$22,263	10.2%	\$3,231,040	4.8%
A 1999			\$8,282	-5.7%			\$23,520	5.6%	\$3,344,251	3.5%
A 2000			\$8,461	2.2%			\$1,948	-91.7%	\$3,376,018	0.9%
A 2001	\$2,129	83.3%	\$11,015	30.2%			\$2,363	21.3%	\$3,568,341	5.7%
A 2002	\$3,903	-21.3%	\$10,669	-3.1%	\$1,180,182		\$2,705	14.5%	\$3,660,739	2.6%
A 2003	\$3,071	-21.3%	\$8,800	-17.5%	\$1,090,984	-7.6%	\$12,439	359.8%	\$3,642,809	-0.5%
A 2004	\$2,974	-3.2%	\$10,428	18.5%	\$1,134,277	4.0%	\$12,179	-2.1%	\$3,794,404	4.2%
A 2005	\$2,694	-9.4%	\$19,265	84.7%	\$1,154,284	1.8%	\$11,918	-2.1%	\$3,988,525	5.1%
A 2006	\$3,252	20.7%	\$21,106	9.6%	\$1,170,571	1.4%	\$13,354	12.1%	\$4,216,939	5.7%
A 2007	\$3,840	18.1%	\$18,849	-10.7%	\$1,181,927	1.0%	\$13,698	2.6%	\$4,632,083	9.8%
A 2008	\$4,013	4.5%	\$16,010	-15.1%	\$1,170,260	-1.0%	\$15,179	10.8%	\$5,279,140	14.0%
F 2009	\$3,392	-15.5%	\$19,185	19.8%	\$1,179,432	0.8%	\$15,796	4.1%	\$5,494,709	4.1%
F 2010	\$3,408	0.5%	\$18,275	-4.7%	\$1,188,677	0.8%	\$16,438	4.1%	\$5,719,081	4.1%
F 2011	\$3,424	0.5%	\$20,897	14.3%	\$1,197,994	0.8%	\$17,106	4.1%	\$5,952,616	4.1%
	Class 9 Pipelines & Electricity Transmission		Class 10 Forest Land		Class 12 Airlines & Railroads		Class 13 Telecommunication & Electrical Generation		Class 14 Renewable Energy Production & Transmission	
Calender Year	Assessed Value	Annual Percent Change	Assessed Value	Annual Percent Change	Assessed Value	Annual Percent Change	Assessed Value	Annual Percent Change	Net Assessed Value	Annual Percent Change
A 1998			\$971,863	3.1%						
A 1999	\$1,940,197		\$1,252,954	28.9%						
A 2000	\$1,938,782	-0.1%	\$2,287,433	82.6%						
A 2001	\$1,719,851	-11.3%	\$2,058,427	-10.0%						
A 2002	\$1,767,717	2.8%	\$2,048,625	-0.5%	\$1,161,405		\$2,286,414			
A 2003	\$1,833,334	3.7%	\$2,022,746	-1.3%	\$1,176,038	1.3%	\$2,041,207	-10.7%		
A 2004	\$1,990,999	8.6%	\$2,005,553	-0.8%	\$1,183,046	0.6%	\$2,008,084	-1.6%		
A 2005	\$2,070,805	4.0%	\$1,989,784	-0.8%	\$1,183,616	0.0%	\$2,048,766	2.0%		
A 2006	\$2,204,148	6.4%	\$1,982,408	-0.4%	\$1,171,178	-1.1%	\$2,354,749	14.9%	\$85,189	
A 2007	\$2,173,798	-1.4%	\$1,965,616	-0.8%	\$1,221,693	4.3%	\$2,550,499	8.3%	\$87,475	2.7%
A 2008	\$2,278,059	4.8%	\$1,947,617	-0.9%	\$1,266,918	3.7%	\$2,583,395	1.3%	\$92,177	5.4%
F 2009	\$2,387,320	4.8%	\$1,931,274	-0.8%	\$1,266,918	0.0%	\$2,708,017	4.8%	\$140,509	52.4%
F 2010	\$2,501,821	4.8%	\$1,915,067	-0.8%	\$1,266,918	0.0%	\$2,838,652	4.8%	\$238,004	69.4%
F 2011	\$2,621,815	4.8%	\$1,898,996	-0.8%	\$1,266,918	0.0%	\$2,975,589	4.8%	\$273,026	14.7%

Of note in Table 4 are:

- **Class 1**, net proceeds of all mines (except metal mines and bentonite), assessed value is highly dependent on construction, value is expected to drop in CY 2009 (as in CY 2003) and then recover to its long run growth rate. The series presented is adjusted for the removal of bentonite from the class in CY 2005.
- **Class 2**, net proceeds of metal mines forecast is based on the Global Insight projection for the producer price for metals and is expected to decline in FY 2010. Growth is restored in FY 2011, in part, due to the expiration of new and expanding industry tax rates.
- **Class 8**, growth is based on underlying property value growth after adjusting for large onetime investments.
- **Class 10**, property is assessed on the productive value of timber on forest lands, changes due to reappraisal are unknown and are assumed to have no change due to reappraisal.
- **Class 14**, (formerly wind generation property) is expanding rapidly from its initial base. The forecast is based on an assessment of recent growth such as reported new projects that have broken ground and assessment of potential projects. The growth rate for Class 14 is based on the exempted value of the property.

**Step 2:** Estimate the impact of reappraisal on Classes 3, 4 and 10.

For classes 3, 4 and 10 base growth rates are derived by estimating the growth of property at full-reappraisal value through TY 2008 in order to measure underlying growth. For this estimate Classes 3 and 10 are assumed to have no reappraisal change.

Table 5 presents the estimate of base class 3 growth. Class 10 growth was presented in Table 4 above. The assessed market value of agricultural land tends to fall as farm land is converted to commercial and residential parcels.

Because exemptions are different for commercial and residential property, and reappraisal impacts are likely to be different for each subclass of class 4 property; estimates of reappraisal effects for residential and commercial property are presented separately, starting with residential property.

The current estimate for residential property assumes that 15% of property decreases in value by an average of 4% and the remaining 85% of properties rise an average of 36%. These estimates are loosely based on the distribution of property during the 2003 reappraisal. Table 6 presents the forecast of underlying growth of 3.2% which is based on property growth in the late 1990s after the dot com "bubble" began to deflate.

The table presents the estimate of property that declines in value and for which reappraisal value applies immediately. The table also presents the estimate of properties that increased in value and the phase-in required under 15-7-111, MCA.

**Table 5  
Class 3 Agricultural Land  
Full Reappraisal Value**

Calender Year	Full Reappraisal Value	Annual % Chg.
2002	\$3,845,602,698	-0.1%
2003	\$4,477,138,879	16.4%
2004	\$4,470,737,962	-0.1%
2005	\$4,457,023,294	-0.3%
2006	\$4,453,806,563	-0.1%
2007	\$4,450,375,340	-0.1%
2008	\$4,446,426,252	-0.1%
F 2009	\$4,442,740,683	-0.1%
F 2010	\$4,439,058,170	-0.1%
F 2011	\$4,435,378,709	-0.1%

**Table 6  
Class 4 - Residential Property Full Reappraisal Value  
Phase-in and Assessed Value Without Mitigation**

Calendar Year	Class 4 Residential		Properties for Which Value:		Phase-in Incremental Value	Total Assessed Value
	Full Reappraisal	Growth	Declined	Increased		
1998	\$26,571,350,481	3.2%				
1999	\$27,413,435,577	3.2%				
2000	\$28,491,931,202	3.9%				
2001	\$29,467,078,334	3.4%				
2002	\$30,896,848,417	4.9%				
2003	\$38,896,055,931	25.9%				
2004	\$40,438,426,830	4.0%				
2005	\$42,398,184,468	4.8%				
2006	\$44,588,728,062	5.2%				
2007	\$46,962,751,995	5.3%				
2008	\$48,755,025,124	3.8%				\$48,755,025,124
F 2009	\$65,390,186,456	34.1%	\$7,243,220,654	\$42,755,121,914	\$2,564,281,192	\$52,562,623,759
F 2010	\$67,462,497,438	3.2%	\$7,472,768,947	\$44,110,094,479	\$5,291,094,053	\$56,873,957,479
F 2011	\$69,600,482,997	3.2%	\$7,709,591,963	\$45,508,008,113	\$8,188,164,884	\$61,405,764,960

For class 4, assessed market value is not the basis for calculating taxable value. For residential property, there is a "homestead" exemption of 34% (15-6-222, MCA.), that must first be deducted.

Table 7 displays the estimated impact of reappraisal on commercial property. The current estimate is based on the assumption that 25% of commercial property declines in value an average of 5.4% and that the remaining 75% of property goes up in value an average of 36%.

**Table 7**  
**Class 4 - Commercial Property Full Reappraisal Value**  
**Phase-in and Assessed Value Without Mitigation**

Calendar Year	Class 4 Commercial		Properties for Which Value:		Phase-in Incremental Value	Total Assessed Value
	Full Reappraisal	Growth	Declined	Increased		
1998	8,143,714,442	5.0%				
1999	8,550,178,304	5.0%				
2000	8,862,414,734	3.7%				
2001	9,155,042,041	3.3%				
2002	9,442,757,963	3.1%				
2003	11,725,883,492	24.2%				
2004	12,067,933,107	2.9%				
2005	12,488,727,182	3.5%				
2006	12,837,111,530	2.8%				
2007	13,247,331,518	3.2%				
2008	\$13,802,220,883	4.2%				\$13,802,220,883
F 2009	\$17,873,874,853	29.5%	\$3,364,243,058	\$10,668,846,908	\$639,874,762	\$14,672,964,728
F 2010	\$18,421,541,100	3.1%	\$3,467,325,484	\$10,995,746,777	\$1,318,961,817	\$15,782,034,078
F 2011	\$18,985,988,170	3.1%	\$3,573,566,416	\$11,332,663,054	\$2,039,063,398	\$16,945,292,869

The taxable market value of commercial property is calculated after deducting the "comstead" exemption of 15% (15-6-222, MCA)

Table 8 Summarizes estimated underlying growth rates for all classes:

**Table 8**  
**TY 2008 and Estimated TY 2009 and TY 2010**  
**Assessed Value Growth Rates by Property Tax Class**

Class	Description	Actual	Estimated	
		TY 2008	TY 2009	TY 2010
1	Net Proceeds of Mines	3.8%	-15.5%	0.5%
2	Gross Proceeds of Mines	-15.1%	19.8%	-4.7%
3	Agricultural Land	-0.1%	-0.1%	-0.1%
4	Residential and Commercial Real Property	5.2%	5.1%	7.5%
5	Rural Co-Op/Pollution Control	-1.0%	0.8%	0.8%
7	Non-centrally Assessed Utilities	10.8%	4.1%	4.1%
8	Business Personal Property	14.0%	4.1%	4.1%
9	Pipelines & Non-elec. Generating	-1.4%	4.8%	4.8%
10	Forestland	-0.9%	-0.8%	-0.8%
12	Airlines/Railroads	3.7%	0.0%	0.0%
13	TeleCom & Electric Generation Property	4.8%	4.8%	4.8%
14	Renewable Energy Production & Transmission	5.6%	69.3%	42.1%
15	CO2/Qualifying Liquid Pipeline Property	0.0%	0.0%	0.0%
16	High Voltage DC Converter Property	0.0%	0.0%	0.0%

**Step 3:** Determine the Applicable Tax Rate for Each Class of Property

As stated previously, tax rates for each class of property are set in statute. However, classes 3 and 4 have special rates which apply to sub-categories of property. The applicable tax rate is the actual overall tax rate for the class after considering the special tax rate provisions for certain property.

In class 3 smaller plots of land that do not generate at least \$1,500 in agricultural production per year are considered "non-qualified agricultural land" and have a tax rate seven times the standard rate. Because the non-qualified agriculture tax rate is higher than the standard class 3 tax rate, the applicable tax rate is higher than the standard tax rate. Table 9 provides the detail for class 3.

Calendar Year	Taxable Market Value	Standard Tax Rate	Applicable Tax Rate	Taxable Value	Taxable Value Growth
A 2002	3,845,602,698	3.46%	3.61%	\$138,918,722	-0.1%
A 2003	3,942,941,138	3.40%	3.56%	\$140,240,224	1.0%
A 2004	4,044,106,892	3.30%	3.46%	\$139,901,823	-0.2%
A 2005	4,138,071,799	3.22%	3.41%	\$140,988,242	0.8%
A 2006	4,241,065,540	3.14%	3.32%	\$141,002,419	0.0%
A 2007	4,344,016,347	3.07%	3.25%	\$141,328,914	0.2%
A 2008	4,446,426,252	3.01%	3.20%	\$142,069,587	0.5%
F 2009	<b>\$4,442,740,683</b>	3.01%	3.21%	<b>\$142,518,090</b>	0.3%
F 2010	<b>\$4,439,058,170</b>	3.01%	3.22%	<b>\$143,004,702</b>	0.3%
F 2011	<b>\$4,435,378,709</b>	3.01%	3.24%	<b>\$143,532,008</b>	0.4%

In class 4, residential properties for individuals who meet residence and income criteria receive reduced tax rates. Some commercial properties are taxed at a lower than standard rate — examples are new and expanding industry property, and commercial golf courses. Class 4 applicable tax rates are the standard rates (3.01% in TY2008) with these adjustments. The table shows the effects of the phase down of tax rates during the last reappraisal cycle. Class 4 residential and commercial property taxable values are presented in Table 10.

Table 10 Class 4 - Residential and Commercial Property Taxable Market Value (with Phase-in)								
Tax Year	Residential Property			Commercial Property			All Class 4 Property	
	Taxable Market Value	Tax Rate	Taxable Value	Growth	Taxable Market Value	Tax Rate	Taxable Value	Growth
A 1998			\$704,138,927			\$247,919,791		
A 1999			\$653,771,296	-7.2%		\$240,417,014	-3.0%	
A 2000			\$667,865,912	2.2%		\$250,256,341	4.1%	
A 2001			\$692,948,871	3.8%		\$261,153,471	4.4%	
A 2002			\$731,671,491	5.6%		\$271,202,451	3.8%	
A 2003	\$22,416,714,414	3.37%	\$755,783,275	3.3%	\$8,876,913,072	3.09%	\$274,329,534	1.2%
A 2004	\$24,221,081,258	3.27%	\$792,062,821	4.8%	\$9,370,922,651	3.04%	\$284,921,722	3.9%
A 2005	\$26,088,682,671	3.19%	\$832,617,039	5.1%	\$9,916,021,414	3.00%	\$297,177,428	4.3%
A 2006	\$28,110,923,719	3.11%	\$875,201,471	5.1%	\$10,425,955,800	2.96%	\$308,619,522	3.9%
A 2007	\$30,372,907,361	3.05%	\$925,050,672	5.7%	\$10,526,866,332	3.04%	\$320,039,730	3.7%
A 2008	\$32,178,316,582	2.98%	\$960,291,102	3.8%	\$11,703,070,314	2.98%	\$348,522,013	8.9%
F 2009	\$34,691,331,681	2.98%	\$1,035,286,512	7.8%	\$12,472,020,019	2.98%	\$371,421,636	6.6%
F 2010	\$37,536,811,936	2.98%	\$1,120,203,613	8.2%	\$13,414,728,966	2.98%	\$398,495,877	7.6%

Table 11 summarizes property tax rates for FY 2008 through FY 2011. The table illustrates that class 8 and class 11 property also have different applicable rates,

Investments in new and expanding industry that are class 8 property can receive reduced tax rates during the initial investment period. Property that meets statutory requirements can receive a 50 % reduction in the class tax rate for the initial 5 years of the investment. The rate reduction is then phased out over the subsequent 5 years. This lowers the average class tax rate. The class average tax rate was calculated from the Department of Revenue TY 2007 and TY 2008 property database. The rate is assumed to hold constant at its current rate of 2.87% through the forecast period.

The class 12 tax rate is calculated under the provisions of the federal 4-R Act. The specific provisions of the act prohibits state, county, and local taxing jurisdictions from assessing rail transportation property at a higher ratio of assessed value to true market value than other commercial and industrial property within the jurisdiction. Class 4 commercial property represents over 55% of commercial and industrial property, and is assessed on a six-year cycle. The Department of Revenue uses commercial property sales to adjust the class 4 commercial tax rate to calculate the class 12 tax rate annually. This estimate uses forecast market and taxable values to estimate the likely class 12 rate for TY 2009 through TY 2011.

**Table 11**  
**Actual & Applicable Property Tax Rates for FY 2008 through FY 2011**

Property Tax Class	Statutory Tax Rate			Applicable Tax Rate		
	FY 09	FY 10	FY 11	FY 09	FY 10	FY 11
Class1 - Net Proceeds of Mines	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Class 2 - Gross Proceeds of Mines	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 3 - Agricultural Land	3.01%	3.01%	3.01%	3.20%	3.21%	3.22%
Class 4 - Residential and Commercial Real Property	3.01%	3.01%	3.01%	2.98%	2.98%	2.98%
Class 5 - Rural Co-Op/Pollution Control	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 7 - Non-centrally Assessed Utilities	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Class 8 - Business Personal Property	3.00%	3.00%	3.00%	2.87%	2.87%	2.87%
Class 9 - Pipelines & Non-elec. Generating	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Class 10 - Forest Land	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Class 12 - Airlines/Railroads	3.44%	Calculate	Calculate	3.44%	3.33%	3.26%
Class 13 - TeleCom & Electric Generation Property	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Class 14 - Renewable Energy Production & Transmission	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 15 - CO2/Qualifying Liquid Pipeline Property	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 16 - High Voltage DC Converter Property	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

#### Step 4: Calculate the statewide fiscal year taxable value for each class of property

Two adjustments must be made before applicable tax rates can be applied to assessed taxable values: adjust tax year to fiscal year and adjust class 8 taxable values for differential treatment of personal property liened to real property.

For all classes of property except class 8, the tax collected on the calendar year taxable value is the next fiscal year's revenue. For class 8 property, fiscal year tax payments are not based on the prior calendar year taxable value alone. Class 8 property not liened to real property (38%) is taxed in the spring of the calendar year and is paid in the current fiscal year. Class 8 property liened to real property (62%) is collected in the following fiscal year when the real property tax payments are made. Therefore, FY 2009 taxable value is 62% of CY 2008 taxable value and 38% of CY 2009 taxable value. Table 12 presents the assessed value for class 8 property with adjustments to estimate revenue that will accrue in the appropriate fiscal year.

**Table 12**  
**Conversion of Class 8 Calendar Year Assessed Value**  
**to Class 8 Fiscal Year Taxable Value**

Calendar Year	Assessed Property	Prior Year Liened to Real Property (62%)	Current Year Not Liened to Real Property (38%)	Fiscal Year Property	Fiscal Year
CY 1998	\$3,507,976,378	\$1,910,656,843	1,333,031,024	3,243,687,867	FY 1999
CY 1999	\$3,703,236,176	\$2,174,945,354	1,407,229,747	3,582,175,101	FY 2000
CY 2000	\$3,727,546,491	\$2,296,006,429	1,416,467,667	3,712,474,096	FY 2001
CY 2001	\$3,943,691,027	\$2,311,078,824	1,498,602,590	3,809,681,415	FY 2002
CY 2002	\$4,012,212,828	\$2,445,088,437	1,524,640,875	3,969,729,311	FY 2003
CY 2003	\$3,995,585,302	\$2,487,571,953	1,518,322,415	4,005,894,368	FY 2004
CY 2004	\$3,989,981,866	\$2,477,262,887	1,516,193,109	3,993,455,996	FY 2005
CY 2005	\$4,184,890,533	\$2,473,788,757	1,590,258,403	4,064,047,160	FY 2006
CY 2006	\$4,643,968,393	\$2,594,632,131	1,764,707,989	4,359,340,120	FY 2007
CY 2007	\$4,981,370,671	\$2,879,260,403	1,892,920,855	4,772,181,258	FY 2008
CY 2008	\$5,506,882,088	\$3,088,449,816	2,092,615,193	5,181,065,009	FY 2009
CY 2009	\$5,722,451,347	\$3,414,266,894	2,174,531,512	5,588,798,406	FY 2010
CY 2010	\$5,946,823,412	\$3,547,919,835	2,259,792,897	5,807,712,731	FY 2011

Table 13 presents the result of applying the tax rates from Table 11 to the fiscal year assessed values. The discussion from this point forward will focus on fiscal year outcomes.

**Table 13**  
**Taxable Value Summary**

Property Class Description	FY 2008	FY 2009	FY 2010	FY 2011
1. Net Proceeds	\$3,839,998	\$4,013,187	\$3,392,000	\$3,408,000
2. Gross Proceeds	\$18,849,252	\$16,010,232	\$19,185,011	\$18,275,054
3. Agricultural Land	\$141,328,914	\$142,069,587	\$142,518,090	\$143,004,702
4. Res./Comm... Real Property	\$1,244,956,088	\$1,308,813,115	\$1,406,708,148	\$1,519,699,490
5. Rural Co-Op/Poll. Control	\$35,457,802	\$35,107,786	\$35,382,960	\$35,660,310
7. Non-centrally Assessed Util.	\$1,095,825	\$1,214,359	\$1,263,680	\$1,315,040
8. Business Equipment (adjusted)	\$137,438,820	\$148,446,754	\$160,129,043	\$166,401,329
9. Pipelines, Elec. Trans.	\$264,497,728	\$260,855,810	\$273,367,070	\$286,478,399
10. Forest Land	\$6,879,548	\$6,816,661	\$6,759,459	\$6,702,735
12. Airlines/Railroads	\$43,072,836	\$43,581,979	\$42,186,209	\$41,319,865
13. Telecomm./Elec Generation	\$153,029,921	\$155,003,672	\$162,481,049	\$170,319,134
14. Renewable Energy Prod.& Trans. Prop,	\$2,624,235	\$2,765,312	\$4,215,274	\$7,140,110
15. CO2/Qualifying Liquid Pipeline Property	\$0	\$0	\$0	\$0
16. High Voltage DC Converter Property	\$0	\$0	\$0	\$0
<b>Statewide Taxable Value</b>	<b>\$2,053,070,967</b>	<b>\$2,124,698,453</b>	<b>\$2,257,587,992</b>	<b>\$2,399,724,168</b>
Annual Change in Total Taxable Value	4.93%	3.49%	6.25%	6.30%

**Step 5:** Determine the appropriate taxable value base for the 95 and 1.5 mill levies

In order to calculate the 95 mill revenue due the state, adjustments are made for Tax Increment Financing (TIF) districts and for locally abated property.

TIF districts generally are special taxing jurisdictions, often urban renewal or business improvement districts, which are allowed to retain property taxes generated on the incremental taxable value created in the district after the district was formed. TIF districts are authorized under Title 7, chapter 14, part 42, MCA. Because the tax data file provided by the Department of Revenue is set-up for county assessors' offices, the taxable value in the district is included; however district retains the tax revenue generated by the 95 mill levy and the 1.5 mill levy in the district. However TIF districts do not retain the 6 mill university levy. The 95 mill revenue that would have accrued to the state from TIF districts accrues to the TIF authority. The estimate grows TIF property by class. During the forecast period two TIF districts expire.

The taxable value of locally abated property is added back into the total taxable value estimate for state mill revenue purposes. This estimate assumes that TY 2008 abated values hold constant through the forecast period. Therefore, the estimate assumes that new abatements offset expiring abatements. The above adjustments are applied to the estimate of fiscal year taxable value to estimate the revenue from the 95 mill levy. Table 14 shows these adjustments through FY 2011.

**Table 14**  
**Calculation of General Fund Revenue from 95 Mill Levy**

Calculation	FY 2008	FY 2009	FY 2010	FY 2011
Unadjusted Statewide Taxable Value	\$2,053,070,967	\$2,124,698,453	\$2,257,587,992	\$2,399,724,168
Subtract TIF Value	(\$30,120,363)	(\$26,862,235)	(\$24,854,477)	(\$24,565,200)
Add Abated Property Value	\$18,098,854	\$20,020,604	\$20,020,604	\$20,020,604
Taxable Value for 95 Mills	\$2,041,049,458	\$2,117,856,822	\$2,252,754,119	\$2,395,179,572
Apply 95 Mills	x 0.095	x 0.095	x 0.095	x 0.095
State 95 Mill Levy Revenue	\$193,899,698	\$201,196,398	\$214,011,641	\$227,542,059
Less SB 417 Reimbursements	\$0	\$0	\$0	\$0
<b>State Revenue from 95 Mills</b>	<b>\$193,899,698</b>	<b>\$201,196,398</b>	<b>\$214,011,641</b>	<b>\$227,542,059</b>

The 1.5 mill levy revenue for Colleges of Technology is estimated based on the taxable value in the counties with colleges of technology with TIF and abated value adjustments. Table 15 shows the estimated revenue generated by the 1.5 mill levy:

**Table 15**  
**Property Tax 1.5 Mill Levy General Fund Revenue**

Calculation	FY 2008	FY 2009	FY 2010	FY 2011
Unadjusted Statewide Taxable Value	\$727,453,636	\$758,894,257	\$ 806,359,396	\$ 857,127,225
Subtract TIF Value	(\$23,371,134)	(\$20,754,711)	(\$17,687,200)	(\$15,714,190)
Add Abated Property Value	\$15,941,565	\$17,634,253	\$17,634,253	\$17,634,253
Taxable Value for 1.5 Mills	\$720,024,067	\$755,773,799	\$806,306,449	\$859,047,288
Apply 1.5 Mills	x 0.0015	x 0.0015	x 0.0015	x 0.0015
<b>1.5 Mill Levy Revenue</b>	<b>\$1,080,036</b>	<b>\$1,133,661</b>	<b>\$1,209,460</b>	<b>\$1,288,571</b>

#### Step 6: Calculate the general fund property tax revenue for the 95 and 1.5 mill levies

Estimating total general fund revenue from property taxes requires the calculation of the non-levy revenue that accrues to the state. Non-levy revenues are generally allocated to taxing jurisdictions based on the relative share of levied mills. For example, the 95 mill levy constituted 17.95% (95/ (95+434.13)) of the state-wide average mill levies (529.13 mills) assessed in TY 2007.

The main grouping of non-levy revenues are coal gross proceeds shared with the counties that have coal production, federal forest receipts, and an assortment of miscellaneous revenues reported by the counties.

Beginning in FY 2009, the Secure Rural Schools and Communities Act was reauthorized and fully funded under the Emergency Economic Stabilization Act of 2008. The Secure Rural Schools and Communities Act uses the federal forest receipts distribution formula. The state receives the 55 mill share of the one-third of Title I funds allocated to countywide school levies. In recent years, that has meant approximately 20% of all Title I payments accrue to the state due to school equalization mills.

The base for coal gross proceeds non-levy revenue is the coal severance tax forecast. Coal gross proceeds tax is 5% of the gross value of coal produced. The state receives the 45 mill share gross proceeds tax collections

Table 16 combines the 95 mills and 1.5 mill revenue (net of an estimated \$3.1 million in protested property tax) in addition to non-levy revenues.

**Table 16**  
**Summary of General Fund Property Tax Revenue**

	FY 2008	FY 2009	FY 2010	FY 2011
Property Tax Mill Levy (95 & 1.5)	194,979,735	202,330,059	215,221,101	228,830,630
Non-Levy Revenue:				
Coal Gross Proceeds	6,311,107	7,141,010	7,746,852	8,765,561
Federal Forest Reserves	2,650,501	5,296,000	4,766,000	4,290,000
All Other	1,883,314	1,883,314	1,883,314	1,883,314
Subtotal Non-Levy Revenue	10,844,923	14,320,324	14,396,166	14,938,875
Protested Property Taxes	(806,259)	(3,082,389)	(3,082,389)	(3,082,389)
<b>Total Property Tax Revenue</b>	<b>205,018,398</b>	<b>213,567,994</b>	<b>226,534,878</b>	<b>240,687,116</b>

These estimates constitute the values presented in the Table 1 summary.

## Data Sources

Historical tax revenue is from SABHRS. The summary property tax database and other tax reports were provided by the Department of Revenue. The producer price index for metals is from the Global Insight November 2008 National Forecast

# Motor Vehicle Taxes and Fees

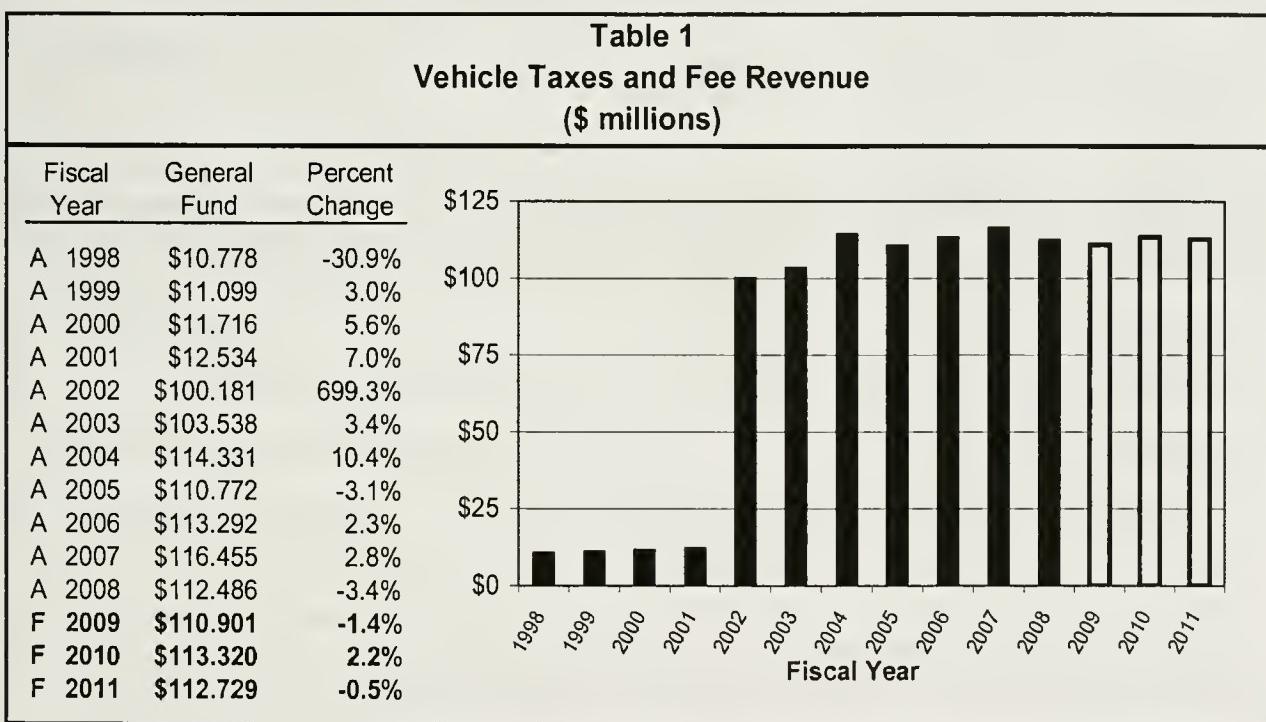
2011 Biennium

## Revenue Description

Titles 23 and 61, MCA, provide for multiple fees and fees in lieu of taxes on motor vehicles. Such vehicles include light vehicles, heavy vehicles weighing more than one ton, motor homes, trailers, travel trailers, watercraft, motorcycles, snowmobiles, and off-highway vehicles. Fees are based on one or a combination of the following criteria: age, weight, size, or vehicle type. Light vehicles (cars, light trucks and sports utility vehicles) registration fees-in-lieu of taxes represent nearly 80% of vehicle taxes and fees.

Based on Global Insight's forecast of new light vehicle registrations, the stock of light vehicles in Montana is estimated to remain flat during the forecasted period. The issuance of new license plates (61-3-332, MCA,) will increase revenue in FY 2010 and FY 2011. After adjusting for these impacts, revenue is expected to recover slightly from FY 2009 collections in FY 2010, with revenue declining slightly in FY 2011 as permanently registered cars and light trucks reduce annual renewal collections.

**Table 1**  
**Vehicle Taxes and Fee Revenue**  
(**\$ millions**)



Since FY 2002, most motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 result from legislation. There is little change in overall revenue because the number of automobiles and light trucks is large (over one million vehicles) and annual new vehicle registrations are relatively few. The stock vehicles changes only to the extent that new registrations are greater (or fewer) than the number of vehicles sold out of state or are taken out of service. Historically, there have been on average 43,800 new vehicle registrations each year the rate of new vehicle stock growth is approximately equal to the "scrapage" rate reported by R.L.Polk & Co.

## Significant Factors

Two factors appear to have reduced revenue more than expected in recent years: reductions in new vehicle registrations with the recent economic slowdown and increased use of permanent registration of older vehicles. To date approximately 6% of vehicles are registered permanently and the program appears to be popular with many vehicle owners. Data is only available for FY 2007 and FY 2008 in SABHRS on permanent registration. Permanent registration lowers future vehicle collections, unless the vehicle re-enters the vehicle tax collections system on a change of ownership.

## **Forecast Methodology**

Because of major reforms in motor vehicle tax legislation by the 2005 Legislature, which resulted in accounting and registration changes, the forecast of general fund vehicle license tax revenue is prepared by:

**Step 1:** Projecting the stock of Montana light vehicles using new vehicle registrations and estimates of vehicle reductions due to scrapping of vehicles

**Step 2:** Estimating the number of light vehicles registering permanently and forecasting permanent registration revenue

**Step 3:** From the remaining stock of vehicles, estimating annual registration revenue from light vehicles

**Step 4:** Using historical ratios to estimate total collections before permanent registration revenue

**Step 5:** Estimating total collections by adding total annual registrations and fees, permanent registration revenue and adjustments for new license plates revenue

Table 2 there are currently 57 separate accounts for which vehicle taxes and fee revenues are recorded. Table 2 groups accounts by functional categories or vehicle type: Light motor vehicles registration; other vehicles registration; all other motor vehicle fees; and light vehicle permanent registration. These groupings are used to estimate total revenue. The estimate builds on the number of cars and light trucks which generate vehicle tax and fee revenue.

It is important to note that for this estimate, adjusted fiscal year light vehicle revenue is used not the current year revenue presented in SABHRS because of accounting delays related to the timing of Motor Vehicle Division (MVD) recording of revenue. The October 2008 Legislative Audit Division report of the Department of Justice documents some of the challenges the Division faces with recording fiscal year-end revenues received from counties. To minimize these effects the prior year adjustments are used to estimate underlying "real" fiscal year activity.

**Table 2**  
**Motor Vehicles Taxes and Fees by SABHRS Account**  
**FY 2006 through FY 2008**

SABHRS Short Description	FY 2006	FY 2007	FY 2008
<b>Adjusted Light Motor Vehicle Registrations</b>	<b>\$76,079,664</b>	<b>\$87,352,147</b>	<b>\$85,624,489</b>
<b>Other Vehicle Registrations</b>			
Large Vehicle Registration	\$5,576,714	\$3,024,446	\$2,778,853
Motor Home Registration	\$5,235,701	\$3,999,998	\$3,742,792
Trailer Registration		\$3,259,672	\$3,346,031
Boats, PWC & Motor Pontoons	\$2,325,379	\$1,470,374	\$1,346,935
Dual Use Motorcycle/Quadracycle Registrations		\$937,101	\$1,023,917
All Other Vehicles Accounts	\$5,167,356	\$1,238,921	\$1,437,393
<b>Total Other Vehicle Registration Fees</b>	<b>\$18,305,151</b>	<b>\$13,930,511</b>	<b>\$13,675,920</b>
<b>All Other Motor Vehicle Fees</b>			
Titles	\$2,368,829	\$2,495,408	\$2,463,826
New Plate Fee	\$2,865,422	\$3,102,155	\$1,492,825
Recreational Travel Trailer Registrations		\$1,464,639	\$1,439,259
Personalized Plates Renew/Transfer		\$826,538	\$922,195
Personalized Plates	\$1,418,129	\$537,942	\$413,804
General Specialty Plate Administration Fee	\$252,140	\$262,653	\$259,595
Veterans License Plate Fees	\$245,637	\$230,726	\$192,623
Registration Fees	\$12,084,778	\$4,847	
All Other Accounts	\$1,793,732	\$2,070,061	\$2,037,882
<b>Total All Other Motor Vehicle Fees</b>	<b>\$21,028,667</b>	<b>\$10,994,968</b>	<b>\$9,222,010</b>
<b>Light Vehicle Permanent Registrations</b>		<b>\$1,971,235</b>	<b>\$3,963,412</b>
<b>Total Adjusted Collections</b>	<b>\$115,413,482</b>	<b>\$114,248,860</b>	<b>\$112,485,831</b>
<i>Reversal of prior year adjustment</i>	(\$2,099,790)	\$2,222,646	\$0
<b>Fiscal Year-end Revenue</b>	<b>\$113,313,692</b>	<b>\$116,471,506</b>	<b>\$112,485,831</b>

**Step 1:** Current Stock. Table 3 presents the actual and forecast number of new car and light truck registrations. Montana FY 2008 registrations are consistent with reports that show a significant drop in new car sales nationally. In order to estimate the stock of Montana vehicles, Federal Highway Administration data on the number of active vehicle registrations in Montana is used to set the base number of cars and light trucks. The latest available full year count of these registrations is for calendar year 2006. The forecast number of vehicles registered in Montana is estimated by adding the new registrations and subtracting the estimated share of vehicle that are retired based on the estimated percent of apparent scrapping of vehicles from national stock of light vehicles using data from Global Insight.

**Step 2:** Permanent Registrations. In order to estimate the share of vehicles that are eligible for permanent registration, data on the share of cars and light trucks over ten years of age from R.L. Polk & Co were used. In Montana vehicles that are over ten years old can be registered permanently for a fixed fee of \$87.50, just over three-times the annual registration fee for older vehicles. These permanently registered vehicles generate no future revenue unless they change ownership. As such, they lower the number of vehicles that register and pay fees annually. The current estimate assumes that the share of vehicles that will be permanently registered will begin to stabilize at about 18% of the eligible vehicle stock. However, if the rate of growth in permanently registered vehicles continued at the rate of increase between FY 2007 and FY 2008 growth rate would reduce total collections by \$1.8 million in FY 2011.

**Table 3**  
**Light Motor Vehicle Stock, Vehicles Eligible for Permanent Registration  
 and Revenue from Permanent Registrations**

Fiscal Year	New Light Vehicle Registration	Percent Change	Estimated Light Vehicle Stock	Growth	Number of Vehicles Over 10 Years Old	Share of Eligible Vehicles	Permanent Permanent Registrations	Permanent Registration Revenue
A 2002	38,382	1.6%	915,100					
A 2003	43,361	13.0%	945,470	3.3%				
A 2004	48,084	10.9%	971,870	2.8%				
A 2005	47,021	-2.2%	992,420	2.1%	327,500			
A 2006	47,247	0.5%	<b>1,014,611</b>	2.2%	340,910			
A 2007	50,579	7.1%	996,410	-1.8%	340,800	6.6%	22,658	\$1,971,235
A 2008	38,738	-23.4%	971,080	-2.5%	326,300	14.0%	45,556	\$3,963,412
F 2009	40,415	4.3%	953,270	-1.8%	320,300	16.4%	<b>52,527</b>	<b>\$4,569,824</b>
F 2010	44,384	9.8%	948,970	-0.5%	318,900	17.2%	54,888	\$4,775,290
F 2011	47,570	7.2%	944,110	-0.5%	317,200	17.5%	55,455	\$4,824,580

**Step 3:** Annual Registrations. Table 4 estimates the forecast of revenue from light vehicle registrations using the number of cars and light trucks that are likely to register annually using the estimated growth rate of vehicles.

**Table 4**  
**Light Motor Vehicle Registration Revenue  
 (\$ millions)**

Fiscal Year	Estimated Light Vehicle Stock	Permanent Registrations (minus)	Annual Registrations	Growth	Light Vehicle Revenue
A 2002	915,100		915,100		\$54,142,909
A 2003	945,470		945,470	3.3%	\$57,085,942
A 2004	971,870		971,870	2.8%	\$58,654,306
A 2005	992,420		992,420	2.1%	\$59,459,210
A 2006	<b>1,014,611</b>		<b>1,014,611</b>	2.2%	\$76,079,664
A 2007	996,410	22,658	973,752	-4.0%	\$87,352,147
A 2008	971,080	45,556	925,524	-5.0%	\$85,624,489
F 2009	953,270	<b>52,527</b>	<b>900,743</b>	-2.7%	<b>\$83,331,953</b>
F 2010	948,970	54,888	894,082	-0.7%	\$82,715,650
F 2011	944,110	<b>55,455</b>	<b>888,655</b>	-0.6%	<b>\$82,213,614</b>

**Step 4:** Apply Historical Ratios. Based on light vehicle revenue, Table 5 uses vehicle registration revenue by group to estimate the revenue from all other vehicles and estimates the increment due to licensing, plating, registration and titling fees. The ratios are stable but change with significant changes in fee rates set in legislation. Forecasts are based on the ratios experienced during the last two fiscal years as these ratios reflect the current legislation and fee rates.

**Table 5**  
**All Vehicle Registration Revenue**  
**(*\$ millions*)**

Fiscal Year	Light Vehicle Revenue	Ratio	All Vehicle Revenue ( net of Permanent Registrations)	Ratio	Total Collections (net of Permanent Registrations)	Growth
A 2002	\$54,142,909	1.357	\$73,479,650	1.366	\$100,399,833	0.0%
A 2003	\$57,085,942	1.382	\$78,870,626	1.313	\$103,537,562	3.1%
A 2004	\$58,654,306	1.356	\$79,506,070	1.438	\$114,330,455	10.4%
A 2005	\$59,459,210	1.353	\$80,429,698	1.377	\$110,786,684	-3.1%
A 2006	\$76,079,664	1.241	\$94,384,815	1.223	\$115,413,482	4.2%
A 2007	\$87,352,147	1.159	\$101,282,658	1.109	\$112,277,625	-2.7%
A 2008	\$85,624,489	1.160	\$99,300,410	1.093	\$108,522,419	-3.3%
F 2009	\$83,331,953	1.160	\$96,665,066	1.100	\$106,331,572	-2.0%
F 2010	\$82,715,650	1.160	\$95,950,154	1.100	\$105,545,169	-0.7%
F 2011	\$82,213,614	1.160	\$95,367,793	1.100	\$104,904,572	-0.6%

**Step 5: Combine All Estimates.** The final step of the estimate is to combine the estimate of revenue from permanent registrations with all other vehicle taxes and fees and to make adjustments for present law revenue impacts. These are presented in Table 6. An adjustment is made to the revenue estimate to account for the issuance of new license plates on the four-year cycle as required under 31-3-332, MCA. The MVD estimates that the new plates issued beginning January 1, 2010 will bring in an additional \$3 million dollars in each of fiscal years 2010 and 2011.

**Table 6**  
**All Vehicle Taxes and Fees Revenue**  
**(*\$ millions*)**

Fiscal Year	Total Collections Net of Permanent Registration	Permanent Registration Estimate	Adjustment for New License Plates	Total Revenue	Projected Growth
A 2002	\$100,399,833			\$100,399,833	
A 2003	\$103,537,562			\$103,537,562	3.1%
A 2004	\$114,330,455			\$114,330,455	10.4%
A 2005	\$110,786,684			\$110,786,684	-3.1%
A 2006	\$115,413,482			\$115,413,482	4.2%
A 2007	\$112,277,625	\$1,971,235		\$114,248,860	-1.0%
A 2008	\$108,522,419	\$3,963,412		\$112,485,831	-1.5%
F 2009	\$106,331,572	\$4,569,824		\$110,901,396	-1.4%
F 2010	\$105,545,169	\$4,775,290	\$3,000,000	\$113,320,459	2.2%
F 2011	\$104,904,572	\$4,824,580	\$3,000,000	\$112,729,152	-0.5%

#### Data Sources

Historical tax revenue data are from SABHRS. Montana vehicles stock is from the Federal Highway Administration. Motor Vehicles Division provided semi-annual vehicle reports (FY 2006 through FY 2008). Average vehicle age and scrapage rates are from R.L. Polk & Co. Global Insight's National and Montana forecasts for October 2008 was the source of Montana new light vehicle registrations and national vehicle stock estimates.

# Corporation License Tax

2011 Biennium

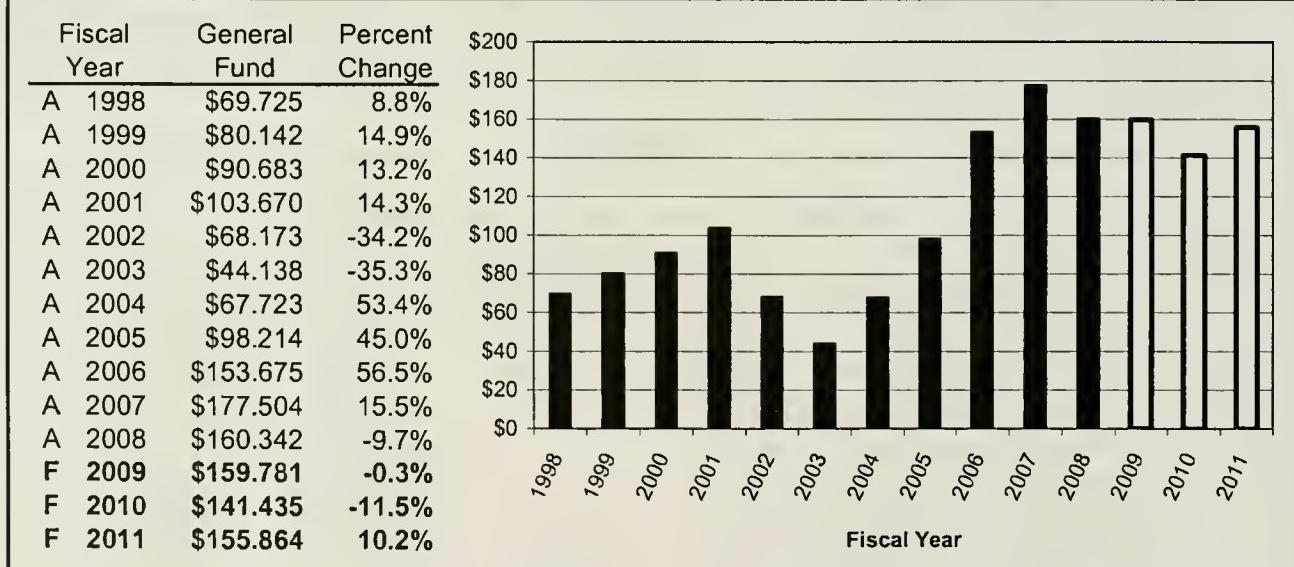
## Revenue Description

The corporation license tax is a tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a "water's edge" election are taxed at 7%. Since FY 2006, revenues have been deposited 100% in the general fund (15-31-121, MCA).

Corporations expecting to have tax liability of at least \$5,000 are required to make quarterly estimated payments. Returns are due five months after the end of the tax year, but a corporation may have an automatic six-month extension and the Department of Revenue may grant additional extensions. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return is due. The minimum corporation tax payment for a year is \$50.

Table 1 shows total and general fund revenue from corporation license taxes for FY 1998 through FY 2008 and projections for FY 2009 through FY 2011. Revenues were already declining from their unusual high in FY 2007; they are expected to continue to decline in FY 2009 and FY 2010 due to a downturn in national economic conditions and increase in FY 2011.

**Table 1**  
**Corporation License Tax**  
**(\$ millions)**



Note the volatility of the corporation license tax and its sensitivity to national economic indicators. This instability is also apparent when the revenue is broken down into its components.

## Risks

- The estimate relies on the Global Insight baseline forecast of national corporate profit before taxes; if economic conditions change significantly, Global Insight's forecast will likely change as well. Global Insight includes both an optimistic and pessimistic scenario in its forecast service. The pessimistic scenario includes the following assumptions:
  - The financial crisis worsens

- Credit markets remained clogged
- Reduced consumer spending
- Housing market continues to fall
- In the October forecast, Global Insight assigns a probability of 25% to the pessimistic scenario occurring. If actual economic conditions over the next several years follow the pessimistic scenario, then corporate tax collections for FY 2009 through FY 2011 will likely be lower than estimated by \$72 million
- A factor that can accelerate and deepen downward turns in revenues is the ability of corporations to claim losses against income in other years through the carry back and forward attributes of the tax code
- The Montana tax base is Montana's share of taxable profits for federal corporate income tax. With a new administration in Washington D.C. beginning January 2009, federal tax changes for corporate income taxes are possible

## **Significant Factors**

- The downturn in revenue over the next several years is unlikely to match the severity of the downturn in the 2000 recession. The economic turbulence of 2000 had significant Montana impacts that almost certainly will not be repeated.
- The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed first year depreciation to be increased by 30% for purchases between September 10, 2001 and May 5, 2003 and by up to 50% for purchases between May 6, 2003 and December 31, 2004. This temporary change in accounting rules shifts corporate profits and taxes from calendar years 2001 through 2004 to later years.

## **Forecast Methodology**

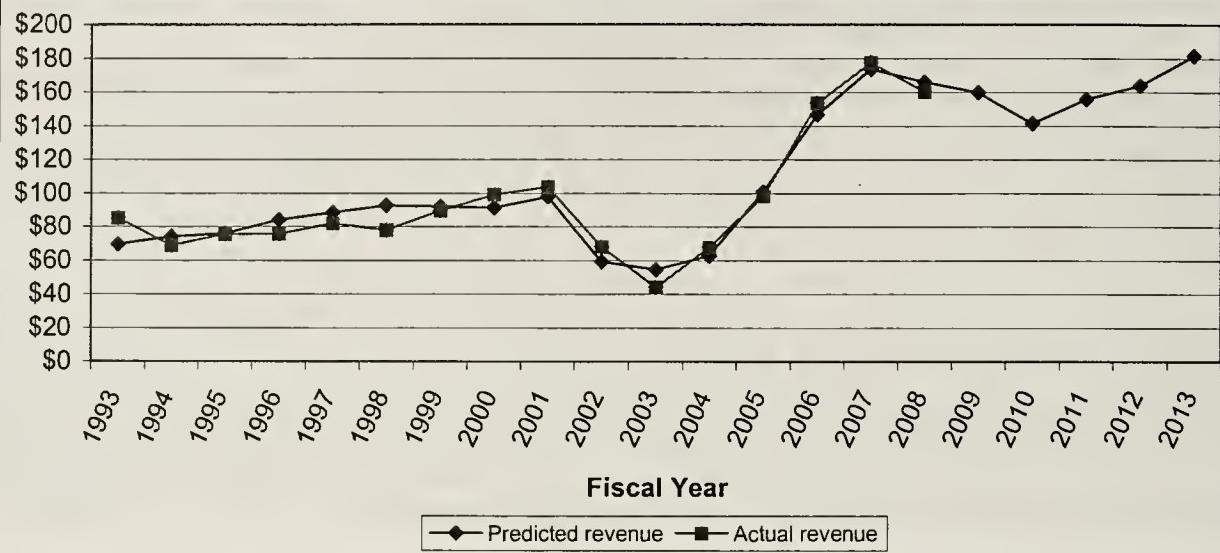
Corporation license tax revenue estimates are made in three steps:

**Step 1:** The model is based on Bureau of Economic Analysis (U.S. Department of Commerce) data on national corporate profits before taxes and Global Insight November 2008 forecast of the same for FY 2009 through FY 2011. National profits before taxes from the prior year have a relatively good level of predictive power for Montana corporate tax revenues.

**Step 2:** Total corporate license tax collections, including both general fund and non-general fund revenues, for FY 1993 through FY 2008 were regressed against prior year national corporate profits before taxes to produce an estimate of the relationship. The regression model also incorporates a time trend and a qualitative variable indicating times of national economic downturn.

**Step 3:** The model is then used to estimate revenues based upon the Global Insight forecast of national before-tax corporate profits. The fit of predicted to actual revenue is shown in Graph 2.

**Graph 1**  
**Comparison of Actual and Predicted Corporate License Tax Revenue**  
**(\$ millions)**



## Data Sources

Data was obtained from SABHRS and the November 2008 Global Insight forecast.

# Insurance Premiums Tax

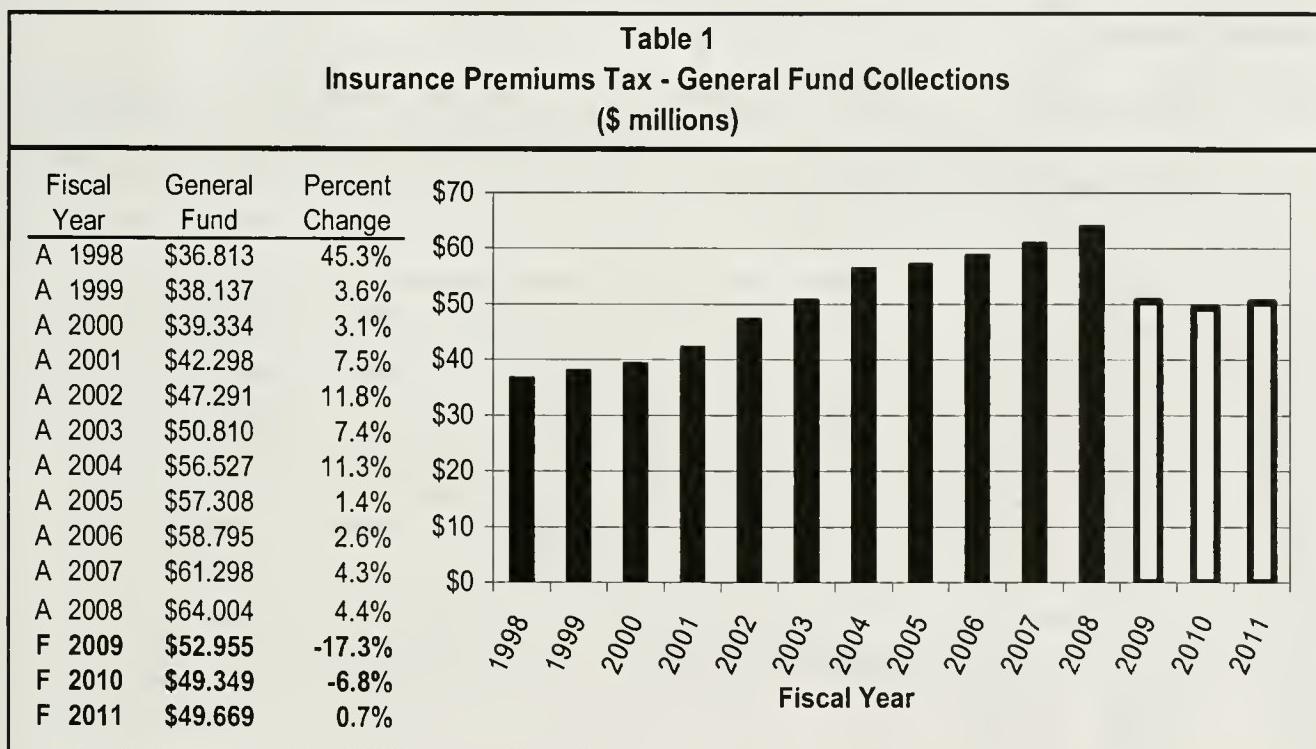
2011 Biennium

## Revenue Description

Montana levies a tax of 2.75% on net premiums on all insurance policies (33-2-705, MCA) except health service corporations, which are exempt from all premium taxes under section 33-30-203, MCA. There is an additional tax of 2.5% on premiums for fire and casualty insurance on property, insurance of property in transit, insurance against loss or damage to motor vehicles, crop insurance, insurance against water damage, insurance against property damage from vehicle accidents, and insurance against theft of a vehicle (50-3-109, MCA). The State Auditors Office (SAO) administers the collection of these taxes.

Table 1 presents the general fund receipts from insurance premium taxes since FY 2008 and forecasts receipts through FY 2011 with the effects of passage of Initiative No. 155 (I-155). The initiative transfers one-third of insurance premium tax receipts (exclusive of Fire/Casualty taxes collected under (50-3-109, MCA,) to a state special revenue fund for the Healthy Montana Kids plan. The initiative reduces general fund collections by \$17.1 million in FY 2009, \$22.1 million in FY 2010 and \$22.3 million in FY 2011.

**Table 1**  
**Insurance Premiums Tax - General Fund Collections**  
(**\$ millions**)



The basic fee structure of insurance premium taxes have not changed significantly since FY 1998 when collections were consolidated and directed to the general fund. However, insurance companies are allowed to offset some of their premium taxes due, for other statutory mandates. Key programs that reduce insurance premium tax collections are assessments for the Montana Life and Health Insurance Guarantee Association (MLHIGA), assessments for the Montana Comprehensive Health Association (MCHA) and administrative fees for the state captive insurance program. The collective impacts of these various programs have reduced state general fund receipts by approximately \$1.75 million a year since FY 2000.

Prior to FY 2006, a statewide genetic testing and counseling program for parents (and prospective parents) was funded by a fee on insurers under 50-19-211 MCA, and recorded in an insurance premiums tax account. The program fee was paid by insurers or health service corporations, for each Montana resident insured under any individual, group disability, or health insurance policy. The 2005 Legislature (SB 275) changed the disposition of the fee revenue from the general fund to a state special revenue fund (50-19-212, MCA). The 2007 Legislature in SB 162 expanded the program,

increased the fees from \$0.70 to \$1.00 per insured resident, and continued funding the program out of the designated state special revenue fund.

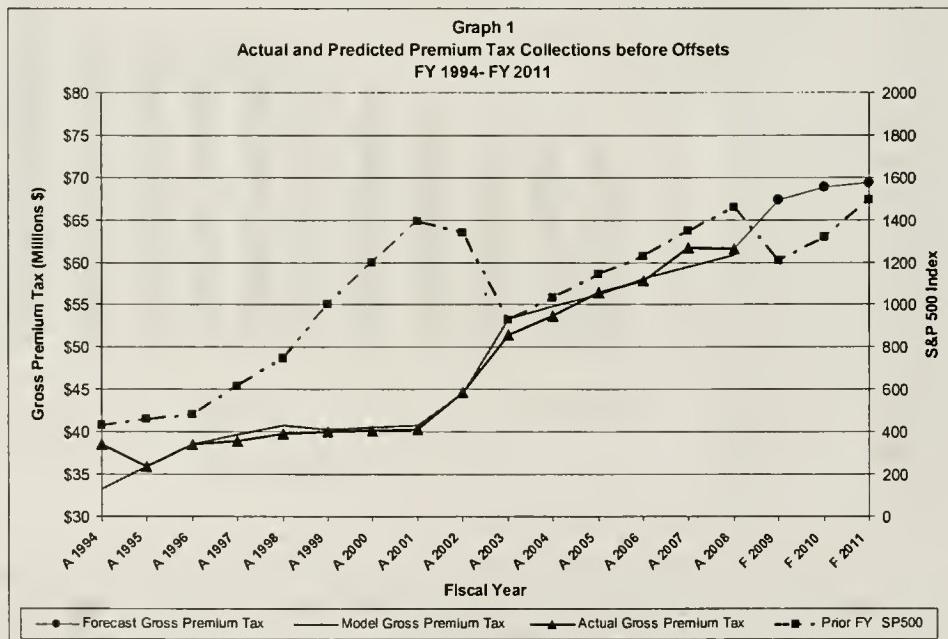
Captive insurance companies are regulated under Title 33, Chapter 28 of the Montana Code commencing with legislation enacted by the 2001 Legislature (SB 373). Captive Insurance firms pay tax on premiums collected under 33-28-201, MCA. These premium taxes are accounted for in the same account as premium taxes collected under 33-2-705, MCA. The 2007 Legislature, through SB 161 reserved five percent (5%) of the tax on premiums paid by captive insurance companies for the administration of captive insurance companies. In FY 2008 nearly \$225,000 in premium taxes were collected from captive insurance companies and \$11,233 was directed to the state special revenue account. Presently, premiums tax collections from captive insurance companies represent a very small fraction (less than 0.35%) of total premium tax collections. While they constitute a rapidly growing source of insurance coverage; these collections are not anticipated to materially affect the level of overall insurance premium tax collections in the near future.

## Significant Factors

Insurance companies collect insurance premiums from policy holders and pay claims from premium collections and investment earnings. When investment earnings are high, insurance companies can reduce premiums charged to clients. Premium tax collections tend to move counter cyclically with financial markets

## Forecast Methodology

**Step 1:** Insurance premium taxes forecast. Insurance premiums taxes before offsets are projected from a model of relationship between Insurance premium tax collections and the average Standard and Poor's 500 stock index value for the prior fiscal year. The fit of the regression model for estimating gross premium taxes (before offsets) is illustrated in Graph 1.



The impact of applying the growth rates derived from modeling FY 1994 through FY 2008 actual gross premium tax collections against prior fiscal year average S&P index values is presented in Table 2.

## Step 2: Calculate Offsets.

Insurance premiums taxes are forecast based on prior trends and State Auditor's office estimates. Table 3 lists the actual insurance company claimed premium tax offsets through FY 2008 and estimates of future offsets. The Montana Life Insurance Guarantee Association (MHHIGA) assessments are approaching zero. The Montana Comprehensive Health Insurance Association (MCHA) assessments fluctuate. In October 2006 MCHA reported that they revised the way they calculate their assessments, at the time they anticipated that

Table 2 Insurance Premiums Tax Growth Before Offsets		
Fiscal Year	Base Premiums Tax Before Offsets (\$ million)	% Growth
A 1998	\$36.212	-4.5%
A 1999	\$35.674	-1.5%
A 2000	\$37.834	6.1%
A 2001	\$39.874	5.4%
A 2002	\$44.803	12.4%
A 2003	\$48.630	8.5%
A 2004	\$53.419	9.8%
A 2005	\$55.526	3.9%
A 2006	\$56.300	1.4%
A 2007	\$59.146	5.1%
A 2008	\$61.609	4.2%
F 2009	\$67.346	9.3%
F 2010	\$68.786	2.1%
F 2011	\$69.324	0.8%

Table 3  
MLHIGA and MCHA Offsets  
(\$ millions)

Fiscal Year	MHLIGA Offsets	MCHA Offsets	Total Offsets
A 1998	\$2.801	\$0.229	\$3.030
A 1999	\$1.936	\$0.702	\$2.638
A 2000	\$1.354	\$0.729	\$2.083
A 2001	\$0.587	\$0.274	\$0.861
A 2002	\$0.259	\$0.481	\$0.740
A 2003	\$0.374	\$1.089	\$1.463
A 2004	\$0.368	\$0.793	\$1.161
A 2005	\$0.382	\$1.268	\$1.650
A 2006	\$0.311	\$0.805	\$1.116
A 2007	\$0.132	\$1.547	\$1.679
A 2008	\$0.022	\$1.554	\$1.576
F 2009	\$0.010	\$1.650	\$1.660
F 2010	\$0.010	\$1.750	\$1.760
F 2011	\$0.010	\$1.860	\$1.870

assessments would stabilize. Data for FY 2007 and FY 2008 suggest that may be the case. For this forecast the assessments are grown by 6%, in order to capture long run medical cost increases.

**Step 3:** Calculate Fire surtax. The Fire Marshal surtax on fire and casualty insurance is projected using the historical proportion of these taxes with respect to base insurance premium tax collections, before offsets. Table 4 lists the anticipated fire/casualty (or Fire Marshall) tax collections for FY 1998 through FY 2007. The FY 2008 estimate included a FY 2009 prior year adjustment to represent actual underlying economic activity in FY 2008. Actual Fire/Casualty surtax collections have steadily remained between 6.2% and 6.5% of gross premium taxes since FY2003. The five year average of 6.43% of gross premium taxes is used to project Fire Marshal tax collections. Table 4 reflects actual FY 2008 activity with a prior year adjustment for a fiscal year-end that misallocated revenue between the insurance premium tax account and the fire/casualty surtax account.

Table 4  
Fire/Casualty Surtax

Fiscal Year	Surtax (\$ millions)	% Growth
A 2002	\$2.429	11.2%
A 2003	\$2.921	20.3%
A 2004	\$3.210	9.9%
A 2005	\$3.416	6.4%
A 2006	\$3.597	5.3%
A 2007	\$3.831	6.5%
R 2008	\$3.758 <sup>1</sup>	-1.9%
F 2009	\$4.260	13.3%
F 2010	\$4.351	2.1%
F 2011	\$4.385	0.8%

<sup>1</sup> \$7.471 minus \$3.713 FY 2009 Adj.

**Step 4:** Calculate insurance licenses and permits. Revenue from insurance licenses and permits are projected based on a three-year moving average.

**Step 5:** Total the Estimates. Total general fund insurance premiums tax revenue (net of offsets) from the fire/casualty insurance surtax, and licenses and permits fees are summed to arrive at the estimate of insurance premiums tax collections for FY 2009, FY 2010 and FY 2011. Table 5 sums all the estimates and factors in the estimated impact of the passage of Initiative -155.

**Table 5**  
**Total General Fund Insurance Premium Tax Collections**  
**(\$ millions)**

Fiscal Year	Insurance Premiums Tax	Offsets	I-155	Fire/Casualty Surtax	Licenses & Permits	General Fund Revenue
A 2002	\$44.803	- \$0.740		+ \$2.429	+ \$0.257	= \$46.748
A 2003	\$48.630	- \$1.463		+ \$2.921	+ \$0.320	= \$50.408
A 2004	\$53.419	- \$1.161		+ \$3.210	+ \$0.559	= \$56.026
A 2005	\$55.526	- \$1.650		+ \$3.416	+ (\$0.440)	= \$56.853
A 2006	\$56.300	- \$1.116		+ \$3.597	+ \$0.184	= \$58.965
A 2007	\$59.146	- \$1.679		+ \$3.831	+ \$0.000	= \$61.298
R 2008	\$61.609	- \$1.576		+ \$3.758	+ \$0.068	= \$63.859
F 2009	\$67.346	- \$1.660	- \$17.081	+ \$4.260	+ \$0.090	= \$52.955
F 2010	\$68.786	- \$1.760	- \$22.119	+ \$4.351	+ \$0.090	= \$49.349
F 2011	\$69.324	- \$1.870	- \$22.260	+ \$4.385	+ \$0.090	= \$49.669

## Data Sources

SABHRS provided historical tax revenue. The Insurance Department of the State Auditor's Office provided historical data on offsets and estimates future offsets. Standard & Poor's 500-stock index and forecast was obtained from *Global Insight* October 2008 national forecast.

# Video Gambling Tax

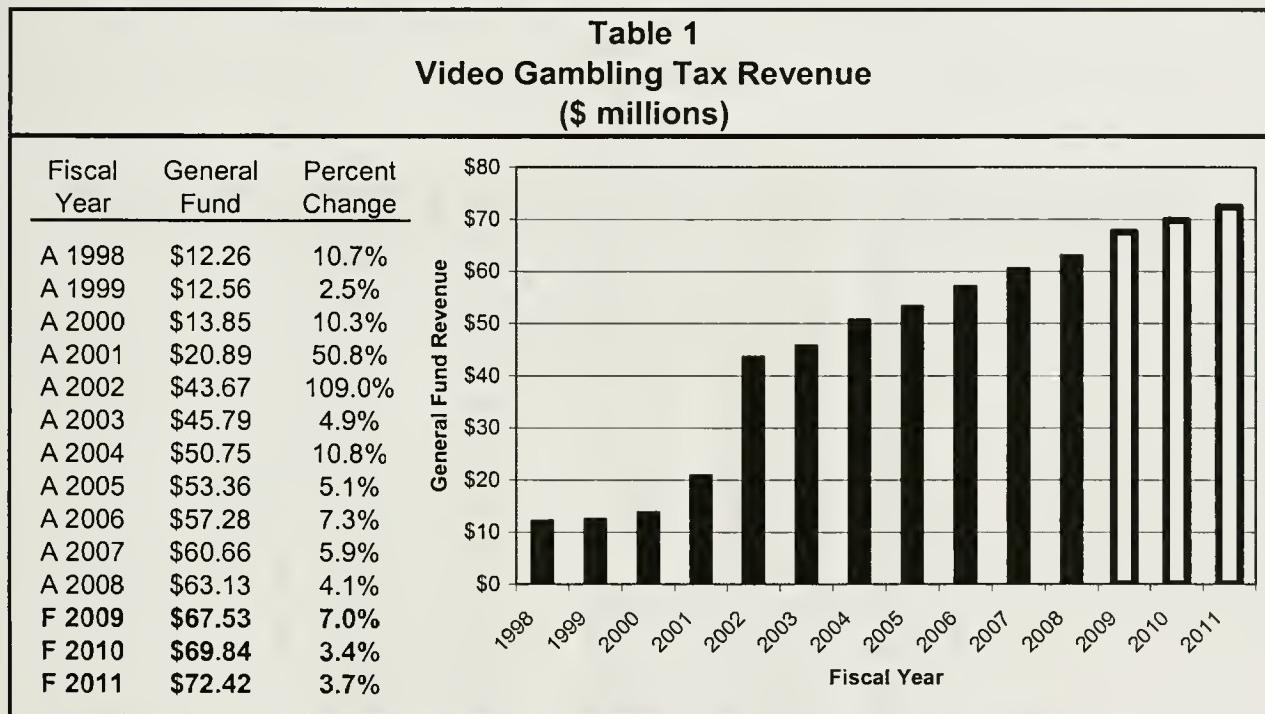
2011 Biennium

## Revenue Description

In accordance with 23-5-610, MCA, a 15% tax is imposed on the gross machine income received from video gambling machines in the state of Montana. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 1998 through FY 2008, and forecasted revenue for FY 2009 through FY 2010.

**Table 1**  
**Video Gambling Tax Revenue**  
**(\$ millions)**



HB 124 (2001 Session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in FY 2001 and FY 2002.

HB 758 (2003 Session) added an additional surcharge fee of \$10 on each video gambling machine for establishments with less than 20 machines and \$20 per machine for establishments with 20 or more machines. HB 758 allocated all video gambling surcharge revenue to the general fund. Two years later, HB 802 (2005 session) eliminated the video gambling surcharge. Thus, the video gambling surcharge was only collected for FY 2004 and FY 2005.

## Significant Factors

The two main factors effecting tax revenue are total personal income for the state as a whole and peoples' participation rates in video gambling. If peoples' income goes down they will have less money to spend on gambling, as well as the trade off

## Forecast Methodology

There are three steps in forecasting video gambling revenue:

**Step 1:** Forecast income in Montana

**Step 2:** Determine the percentage of income that will be spent on video gambling in order to estimate gross machine income.

**Step 3:** Apply 15% tax rate to the gross machine income.

Table 2 shows actual total disposable income for Montana, net machine income, tax revenue, and the percent of personal income spent on video gaming for FY 1993 through FY 2008, and estimates for FY 2009 through FY 2010.

**Table 2**  
**Video Gambling Trends**  
(\$ millions)

Fiscal Year	Personal Income	Net Machine Inc.	% of Total	Tax Revenue <sup>1</sup>
A 1993	\$12,970.13 ÷	\$178.93	= 1.38%	\$26.84
A 1994	\$13,546.19 ÷	\$200.35	= 1.48%	\$30.05
A 1995	\$14,122.90 ÷	\$208.99	= 1.48%	\$31.35
A 1996	\$14,659.92 ÷	\$214.66	= 1.46%	\$32.20
A 1997	\$15,374.19 ÷	\$225.39	= 1.47%	\$33.81
A 1998	\$16,230.82 ÷	\$244.51	= 1.51%	\$36.68
A 1999	\$16,961.22 ÷	\$253.50	= 1.49%	\$38.02
A 2000	\$17,692.82 ÷	\$275.89	= 1.56%	\$41.38
A 2001	\$19,047.10 ÷	\$276.67	= 1.45%	\$41.50
A 2002	\$20,154.06 ÷	\$291.11	= 1.44%	\$43.67
A 2003	\$21,237.64 ÷	\$305.29	= 1.44%	\$45.79
A 2004	\$22,710.75 ÷	\$336.50	= 1.48%	\$50.48
A 2005	\$24,099.32 ÷	\$353.91	= 1.47%	\$53.09
A 2006	\$25,493.50 ÷	\$381.85	= 1.50%	\$57.28
A 2007	\$27,303.96 ÷	\$404.39	= 1.48%	\$60.66
A 2008	\$29,139.55 ÷	\$420.89	= 1.44%	\$63.13
F 2009	\$30,604.21 ÷	\$450.21	= 1.47%	\$67.53
F 2010	\$31,650.48 ÷	\$465.60	= 1.47%	\$69.84
F 2011	\$32,821.61 ÷	\$482.83	= 1.47%	\$72.42

<sup>1</sup>Does not include surcharge fees in FY 2004 and FY 2005

The percentage that Montanans spend on video gambling has remained relatively consistent since FY 1993 and the average percentage for FY 1993 through FY 2008 was used to forecast video gambling net machine income. Global Insight provided estimates for the total disposable income for FY 2009 through 2011. Once an estimate for net machine income is established the tax rate of 15% is applied to yield general fund video gaming income.

## Data Sources

Historic video gambling revenues were obtained from SABHRS MTGL0109 report. Historic and forecasted values for Montana's total disposable income were obtained from Global Insight's *Fall Short Term Outlook*.



GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## NATURAL RESOURCE TAXES SECTION 4

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# Oil and Gas Severance Tax

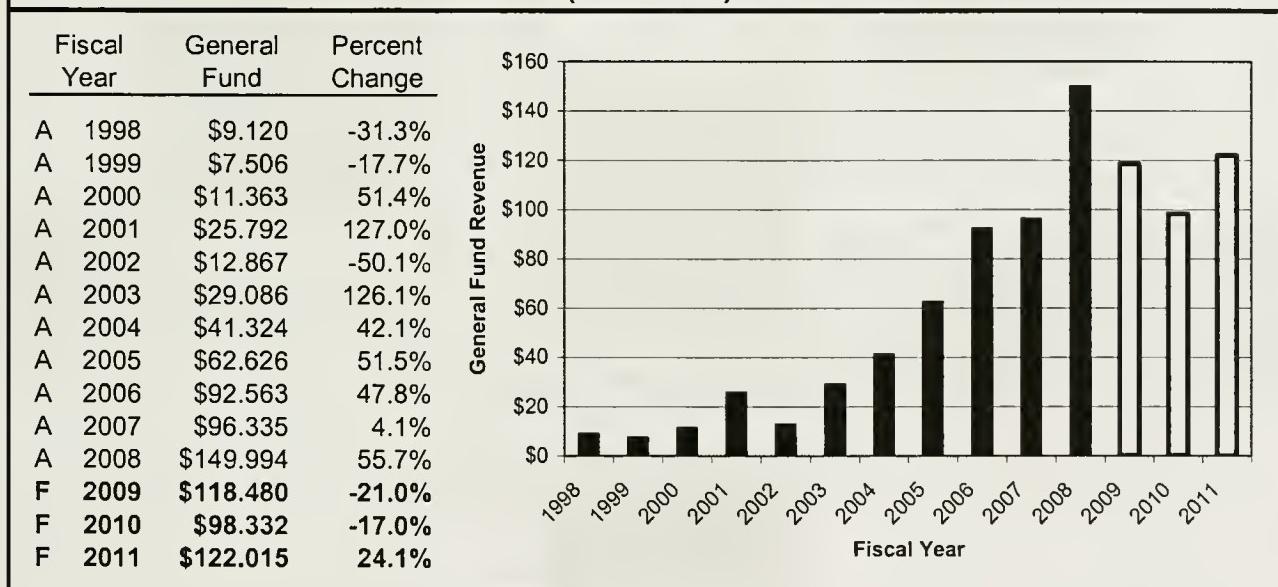
2011 Biennium

## Revenue Description

In accordance with 15-36-304, MCA, Montana taxes the gross value of oil and natural gas production. The tax rates can vary depend on the product being produced, the method of production, the age of the well, the previous year's production, and the price of oil. Working interest owners, who share in a well's costs, pay lower rates than royalty recipients, who do not share in a well's costs. Revenues are distributed to a variety of state, county government, and school accounts. In FY 2008, approximately 46% of revenue from the oil and natural gas production tax was deposited in the general fund.

Table 1 shows actual general fund revenue from the oil and natural gas severance tax for FY 1998 through FY 2008 and projected revenues for FY 2009 through FY 2011.

**Table 1**  
**Oil and Gas Severance Tax Collection**  
**( $\$$  millions)**



The increases in general fund revenue beginning in FY 2003 are attributable to two factors. There has been a large increase in the volume of oil and gas being produced mainly in the Richland County area, and at the same time, oil and natural gas prices rose to historic highs in the spring and summer of 2008.

The varying tax rates for oil and gas production established in 15-36-331, MCA, are listed in table 2.

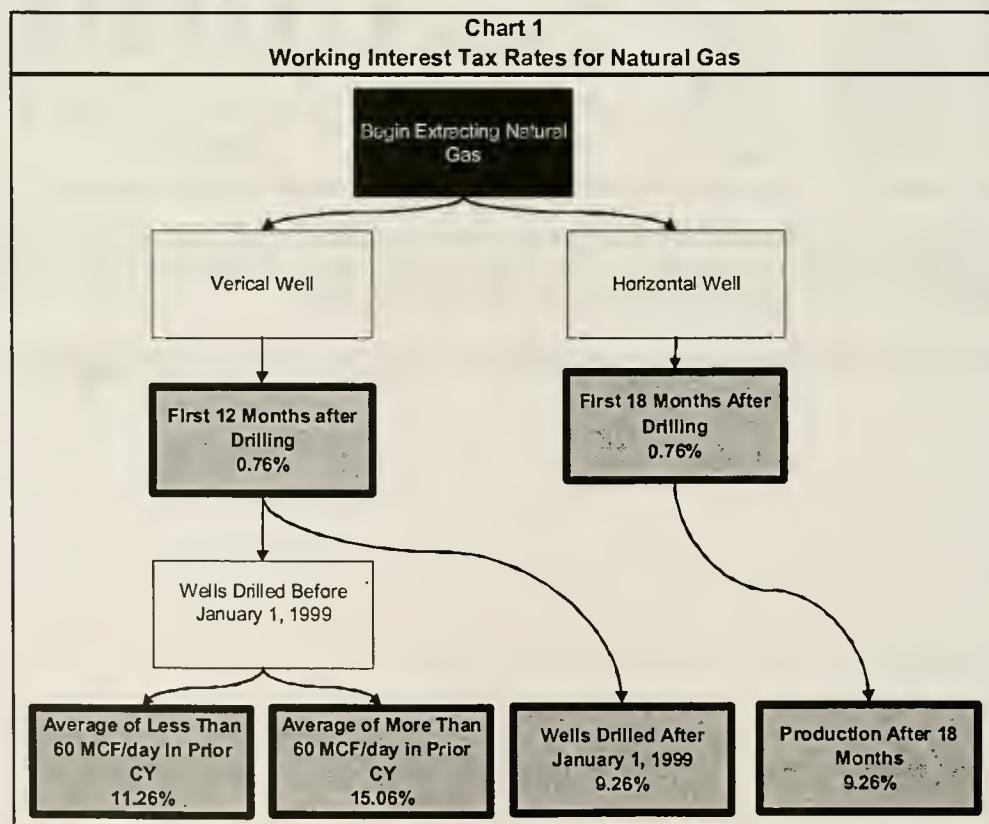
**Table 2**  
**Oil and Natural Gas Tax Rates by Well Category and Interest**

Product	Well Category	Working Interest		Royalty Interest	
		Production Tax	Total Tax	Production Tax	Total Tax
Gas	New Horizontal 0-18 Months -----	0.50%	0.76%	14.80%	15.06%
	After 18 Months-----	9.00%	9.26%	14.80%	15.06%
	New Vertical 0-12 Months -----	0.50%	0.76%	14.80%	15.06%
	Vertical Post-1999-----	9.00%	9.26%	14.80%	15.06%
	Vertical Pre-1999 Stripper -----	11.00%	11.26%	14.80%	15.06%
	Vertical Pre-1999 Regular -----	14.80%	15.06%	14.80%	15.06%
Oil	New Vertical 0-12 Months -----	0.50%	0.76%	14.80%	15.06%
	New Horizontal 0-18 Months -----	0.50%	0.76%	14.80%	15.06%
	Horizontal Recompletion 0-18 Months --	5.50%	5.76%	14.80%	15.06%
	Post-1999 Regular -----	9.00%	9.26%	14.80%	15.06%
	Pre-1999 Regular -----	12.50%	12.76%	14.80%	15.06%
	Stripper Exemption (WTI < \$38/bbl) -----	0.50%	0.76%	14.80%	15.06%
	Stripper Exemption (WTI > \$38/bbl) -----	6.00%	6.26%	14.80%	15.06%
	Stripper <sup>1</sup> -----	5.50%	5.76%	14.80%	15.06%
	Stripper <sup>1</sup> 10-15 Bbl/Day-----	9.00%	9.26%	14.80%	15.06%
	Incremental Secondary <sup>1&amp;2</sup> -----	8.50%	8.76%	14.80%	15.06%
	Incremental Tertiary <sup>1&amp;2</sup> -----	5.80%	6.06%	14.80%	15.06%

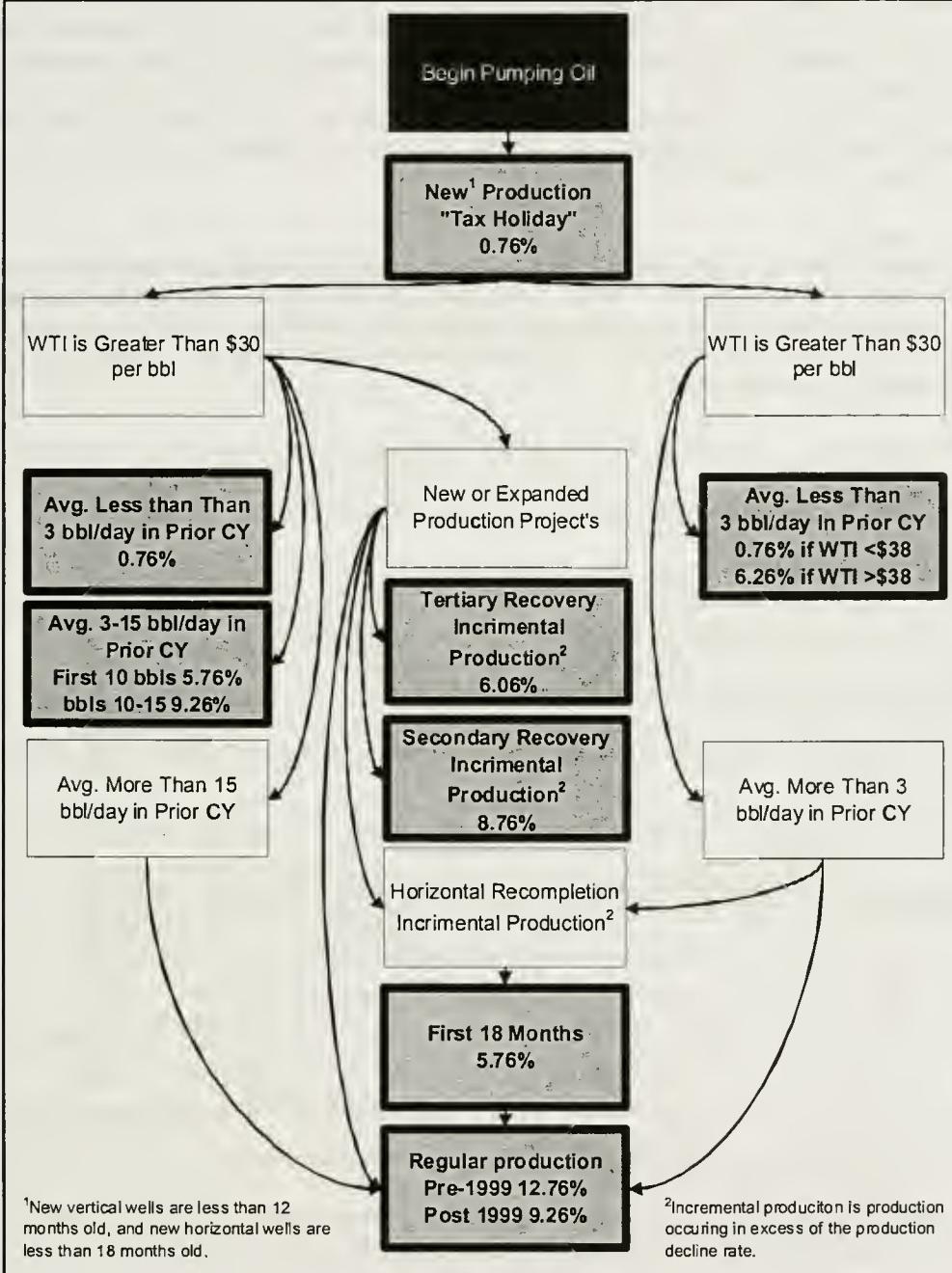
1 Applies only when average price of WTI < \$30/bbl

2 Applies only to increment of increased production

Table 2 shows the original tax rate as well as the combined tax rate when the tax Board of Oil and Gas Conservation's (BOGC) privilege and license tax of 0.09% and the tax of 0.17% distributed to the Oil, Gas, and, Coal Natural Resource Account. The tax rate on royalties is constant regardless of the any of the stipulation in the working interest tax rate. The working interest tax rates, however, have many stipulations that can affect the actual tax rate. The following chart illustrates the needed circumstances that would allow each of the working interest tax rates for both oil and natural gas. Chart 1 illustrates the different tax rates for working interest natural gas extraction.



**Chart 2**  
**Working Interest Tax Rates for Oil Production**



## Risks

- Price
  - The prices received by Montana oil producers are not the same as the national and international prices, however, the prices are related and move together. Oil prices have been very volatile, and continued variation will have a direct effect on the revenues seen by the state.
  - Prices of both oil and natural gas on global markets have fluctuated greatly over the last two years; with oil being priced worldwide in dollars, supply-demand fluctuations will not fully account for severance tax revenues.
- Production
  - Oil production increased over 100% from FY 2003.

- Production has flattened since 2006, mostly due to the maturity of the Elm Coulee field, which lies within the Bakken formation.
- New technologies, both in discovery and in recovery methods have made Elm Coulee very productive.
- In April of 2008 the United States Geological Service (USGS) released an updated estimate of the Bakken formation located in North Dakota and Montana which raised the potentially recoverable oil 25 fold to over 3 billion barrels
- The analysis uses conservative short-term production rates that account for the maturing nature of the Elm Coulee field; but the potential for increased revenue as presented in the USGA findings could be substantial over the long run.
- Pipeline Constraints
  - Beginning around FY 2006, the increased production in the Bakken formation led to overcrowded pipelines in the area, and as a result, a sizable differential in the prices received by Montana producers versus national benchmark prices grew to approximately \$10 per barrel. While extensive work has expanded pipeline capacity in the Montana-North Dakota region, there remains the possibility that a significant price differential could occur again.

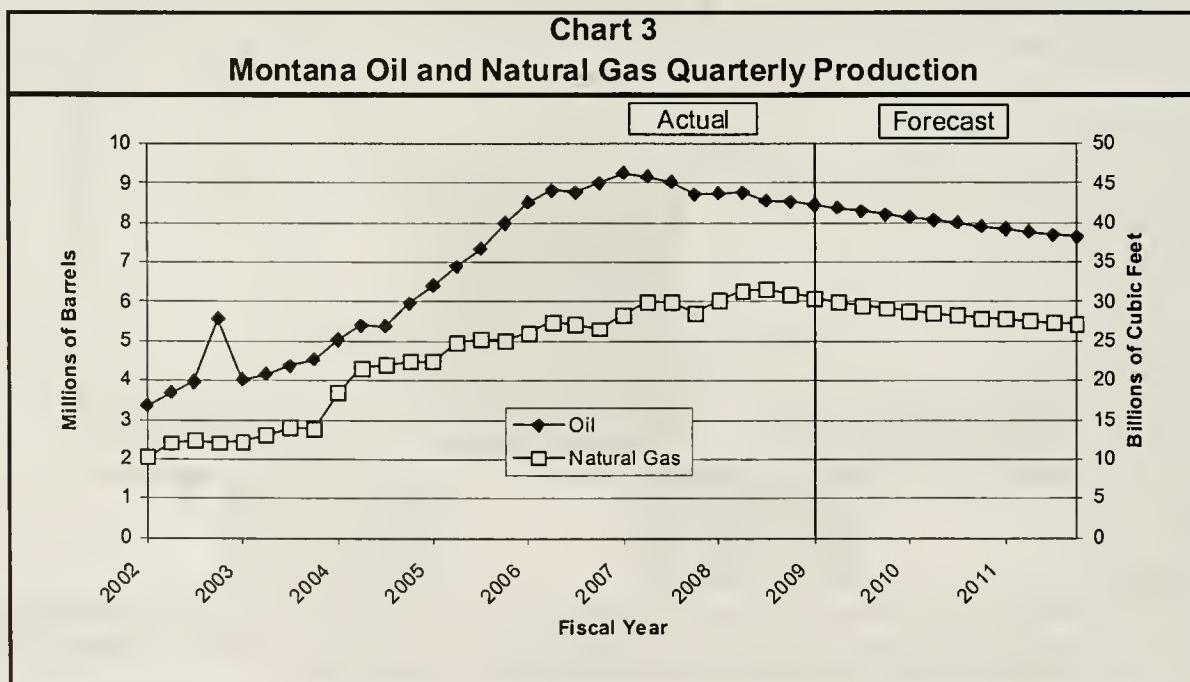
## Forecast methodology

The oil and tax revenue is forecast in three main steps:

### Step 1: Estimate Production by Tax Type

- Estimate the production for Richland County (the Elm Coulee formation lies exclusively in Richland County) and classify each producer in that area into the appropriate tax category.
- Estimate oil production for the rest of the state by tax category.
- Estimate natural gas production for the state as a whole.

Chart 3 shows the actual and projected quarterly production levels of oil and natural gas in Montana from FY 2002 through FY 2011.



As Chart 3 shows: oil production has been leveling off since mid 2006 with the maturing of the Elm Coulee field. While this flattening trend is expected to continue through FY 2011 this forecast does not take into account large production increases that are possible given such a large increase in recoverable oil has now been expected to continue through FY 2011.

## Step 2: Estimate Price of Oil and Natural Gas

There are many factors that are applicable to the price received by oil producers. Oil prices vary across the state as the quality and access to infrastructure are not uniform state wide. Oil prices were estimated in phases. Richland County oil prices were estimated separately, and then all other counties oil price was then estimated based on the respective relationship to West Texas Intermediary (WTI) price. Table 3 shows the actual weighted average price received by Montana Oil Producers for FY 2002 through FY 2008 and forecasted prices for FY 2009 through FY 2011. The table also shows the average WTI price for the same period, and the Global Insight's forecasted values for FY 2009 through FY 2010.

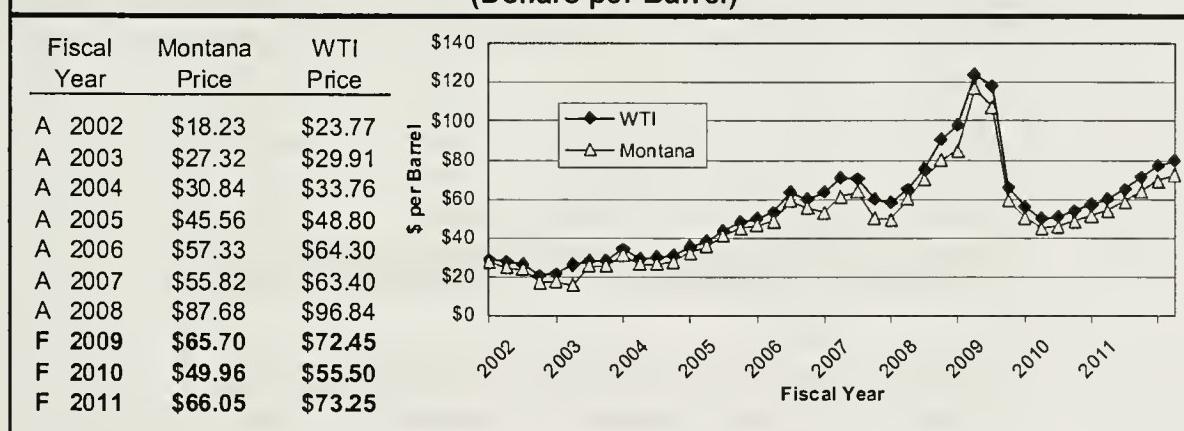
### Oil

- Estimate the relationship between prices received in Montana and the price of West Texas Intermediate (WTI) price, and then assume the relationship will remain the same
- Apply the price derived from the Global Insight forecast of the WTI price to the oil production to calculate gross value.

### Natural Gas

- Estimate the relationship between prices received in Montana and the price received by national producers of natural gas and assume the relationship will continue in the future.
- Apply the price derived from the Global Insight Forecast of the price received by national natural gas producers to calculate gross value.

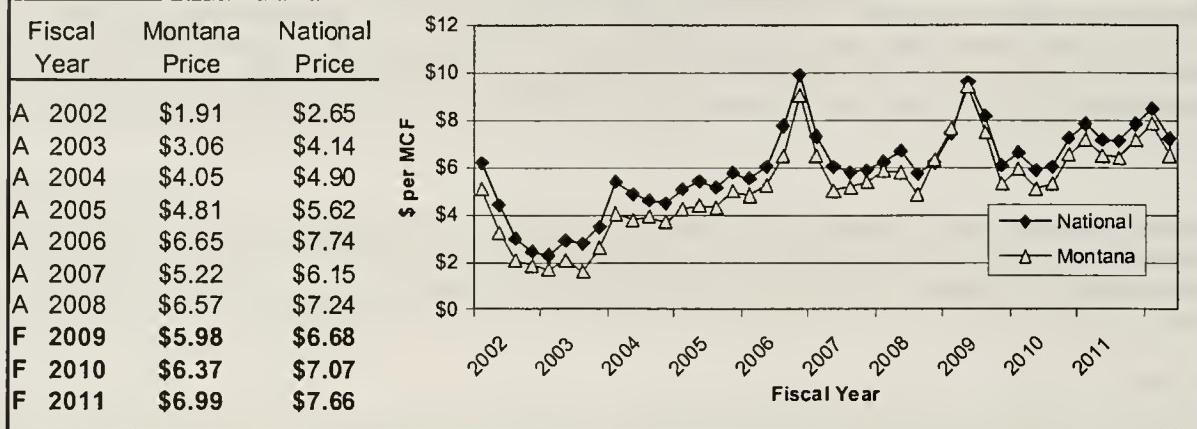
**Table 3**  
**Montana and West Texas Intermediate Oil Price**  
**(Dollars per Barrel)**



The graph on the right shows the quarterly relationship between Montana oil prices and the WTI price.

Table 4 shows the actual weighted average price per thousand cubic feet (MCF) received by Montana natural gas producers for FY 2002 through FY 2008, and forecasted values for FY 2009 through FY 2011. Table 4 also shows the national price per MCF, as well as Global Insight's Forecast for FY 2009 through FY 2010.

**Table 4**  
**Montana and National Natural Gas Prices**  
**(Dollars per MCF)**



**Step 3: Determine Tax Revenue by Category**

- Estimate the percentages of the gross value that will be working interest and the percentage that will be taxable royalty value.
- Apply the appropriate tax rate to yield total tax revenue.

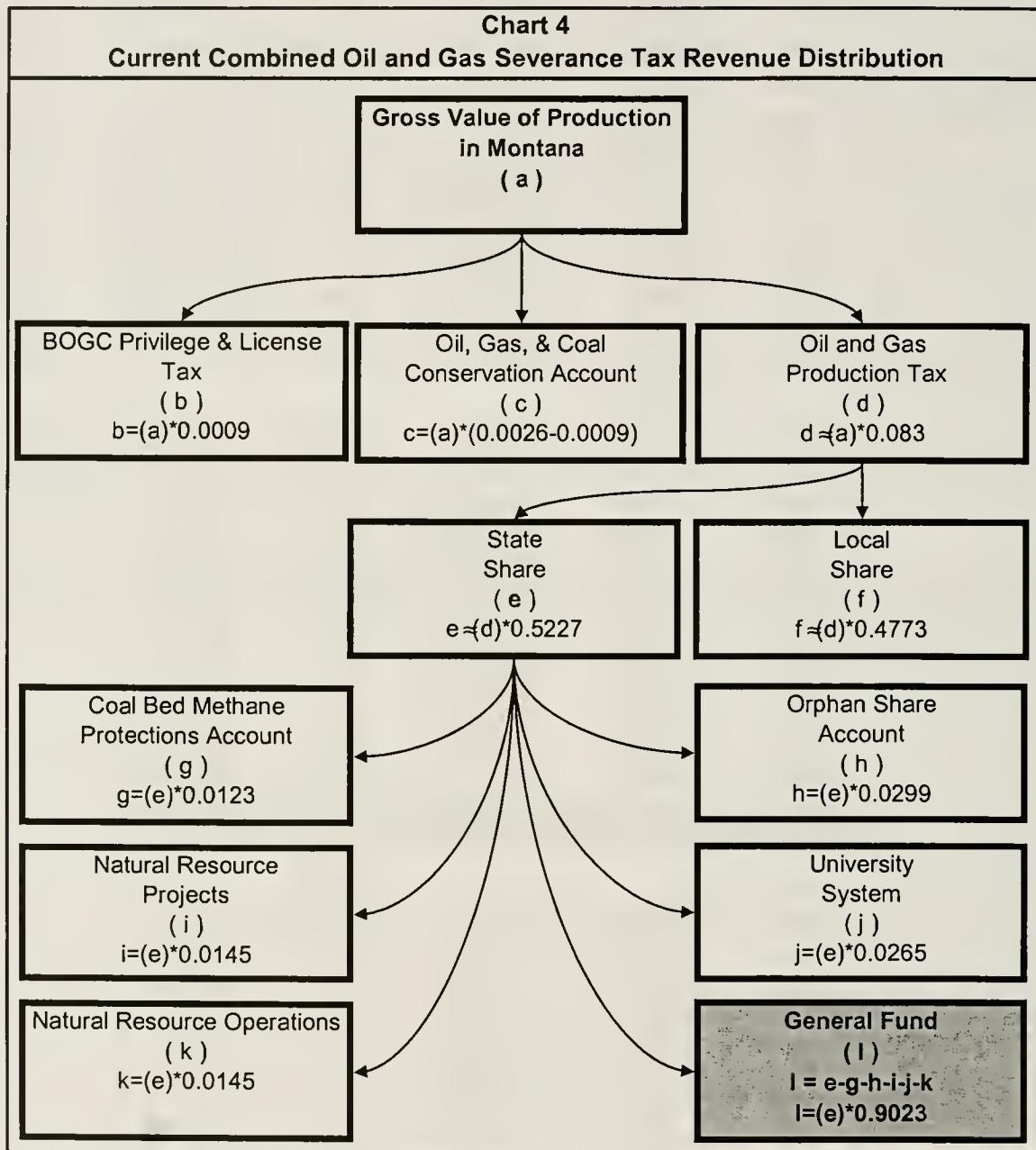
Table 5 shows the forecasted and actual production of oil and natural gas; the gross value of that production; the average tax rate; and the total revenue generated from the combined oil and gas severance tax for FY 2002 through FY 2011.

**Table 5**  
**Montana Oil and Gas Production and Tax Revenue**  
**( $\$$  millions)**

Fiscal Year	Millions of Barrels of Oil	Gross Value	Average Tax Rate	Tax Revenue
A 2002	16.577	\$302.128 X	9.42%	= \$28.463
A 2003	17.072	\$466.408 X	9.29%	= \$43.321
A 2004	21.755	\$671.034 X	8.71%	= \$58.480
A 2005	28.643	\$1,304.893 X	7.66%	= \$99.999
A 2006	35.095	\$2,011.954 X	7.25%	= \$145.913
A 2007	36.176	\$2,019.436 X	8.01%	= \$161.785
A 2008	34.601	\$3,033.699 X	8.79%	= \$266.547
F 2009	33.343	\$2,190.697 X	9.02%	= \$197.524
F 2010	32.117	\$1,604.685 X	9.33%	= \$149.739
F 2011	30.957	\$2,044.594 X	9.56%	= \$195.428
Billion Cubic Feet of Natural Gas				
Fiscal Year		Gross Value	Average Tax Rate	Tax Revenue
A 2002	46.727	\$89.212 X	9.00%	= \$8.025
A 2003	53.099	\$162.278 X	9.28%	= \$15.062
A 2004	84.415	\$342.194 X	8.92%	= \$30.533
A 2005	97.773	\$470.325 X	8.47%	= \$39.845
A 2006	107.266	\$713.312 X	8.25%	= \$58.882
A 2007	116.845	\$609.553 X	7.95%	= \$48.481
A 2008	124.221	\$815.691 X	7.74%	= \$63.160
F 2009	119.105	\$711.997 X	8.15%	= \$58.018
F 2010	113.503	\$723.046 X	8.50%	= \$61.426
F 2011	109.888	\$768.110 X	8.72%	= \$66.976
<b>Total Revenue</b>				
			Audits, Penalties, & Interest	
Fiscal Year	Oil Revenue	Gas Revenue		Total Revenue
A 2002	\$28.463	+ \$8.025	+ \$0.221	= \$36.709
A 2003	\$43.321	+ \$15.062	+ \$2.436	= \$60.819
A 2004	\$58.480	+ \$30.533	+ \$1.688	= \$90.701
A 2005	\$99.999	+ \$39.845	+ \$1.127	= \$140.971
A 2006	\$145.913	+ \$58.882	+ \$1.429	= \$206.223
A 2007	\$161.785	+ \$48.481	+ \$1.242	= \$211.508
A 2008	\$266.547	+ \$63.160	+ \$3.168	= \$332.876
F 2009	\$197.524	+ \$58.018	+ \$1.500	= \$257.042
F 2010	\$149.739	+ \$61.426	+ \$1.500	= \$212.665
F 2011	\$195.428	+ \$66.976	+ \$1.500	= \$263.903

## Distribution

Oil and gas revenue is distributed in accordance with 15-36-331, MCA. Chart 4 is a graphic illustration of how the revenues are distributed.



The BOGC Privilege and License tax is currently set at 0.09% of the gross value of oil and gas production. The tax rate for the tax revenue that goes to the Oil, Gas, and Coal conservation account is equal to the difference between the 0.26% and the rate set by the BOGC, or in this case 0.17%. The tax revenue that goes to the state depends on the type of tax rate applied to the production. In FY 2008 the average tax rate (less the rates of the BOCG and the Oil Gas, and Coal Conservation) was 8.3%. The revenue is then divided between the state and the counties of production. Prior to HB 748 (2003 session) the distribution was based primarily property tax mill levies. After HB 748 the counties and schools were each assigned a percentage of the severance tax revenue generated in their county they would receive. In FY 2008 the counties and schools received 47.73% of the remaining revenue and the state received 52.27%. The State share is then divided as follows:

- 1.23% to the Coal bed Methane Protections Account

- 2.99% to the Orphan Share Account
- 1.45% to the Natural Resource Projects State Special Revenue Account
- 1.45% to the Natural Resource Operations State Special Revenue Account
- 2.65% to the University System
- The remainder, 90.23%, is to be distributed to the general fund.

Table 7 shows the actual distribution of the oil and gas severance tax revenues for FY 2008, and forecasted distributions for FY 2009 through FY 2011.

**Table 6**  
**Oil and Gas Tax Revenue Distribution**  
**(*\$ millions*)**

Entity	Fiscal Year 2008 <sup>†</sup>	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
<b>Tax Revenue</b>	<b>\$321.143</b>	<b>\$255.542</b>	<b>\$211.165</b>	<b>\$262.403</b>
BOGC	\$3.371	\$2.612	\$2.095	\$2.531
Oil, Gas, & Coal Natural Resource Acct.	\$6.134	\$4.935	\$3.957	\$4.782
Local Share	\$148.730	\$118.348	\$97.796	\$121.526
State Share	\$162.908	\$129.646	\$107.317	\$133.564
Coal Bed Methane Protection Acct. (1.23%)	\$2.025	\$1.595	\$1.320	\$1.643
Natural Resource Projects Acct. (1.45%)	\$2.382	\$1.880	\$1.556	\$1.937
Natural Resource Operations Acct. (1.45%)	\$2.392	\$1.880	\$1.556	\$1.937
Orphan Share Acct. (2.99%)	\$4.922	\$3.876	\$3.209	\$3.994
University System (2.65%)	\$4.362	\$3.436	\$2.844	\$3.539
General Fund Share (90.23%)	\$146.825	\$116.980	\$96.832	\$120.515
Audits, Penalties, & Interest	\$3.168	\$1.500	\$1.500	\$1.500
<b>Total General Fund Revenue</b>	<b>\$149.994</b>	<b>\$118.480</b>	<b>\$98.332</b>	<b>\$122.015</b>

<sup>†</sup>Total revenue for FY 2008 does not match table 5 due to accrual reversals and amended tax returns.

## Data Sources

Montana oil and tax data was supplied by the Montana Department of Revenue's GENTAX system. Historic and forecasted WTI prices, as well as historic and projected wellhead prices for natural gas are from Global Insight's September National Forecast. Supplemental data was obtained from the Board of Oil and Gas Conservation's website at <http://bogc.dnrc.mt.gov/default.asp>.

# U.S. Mineral Royalties

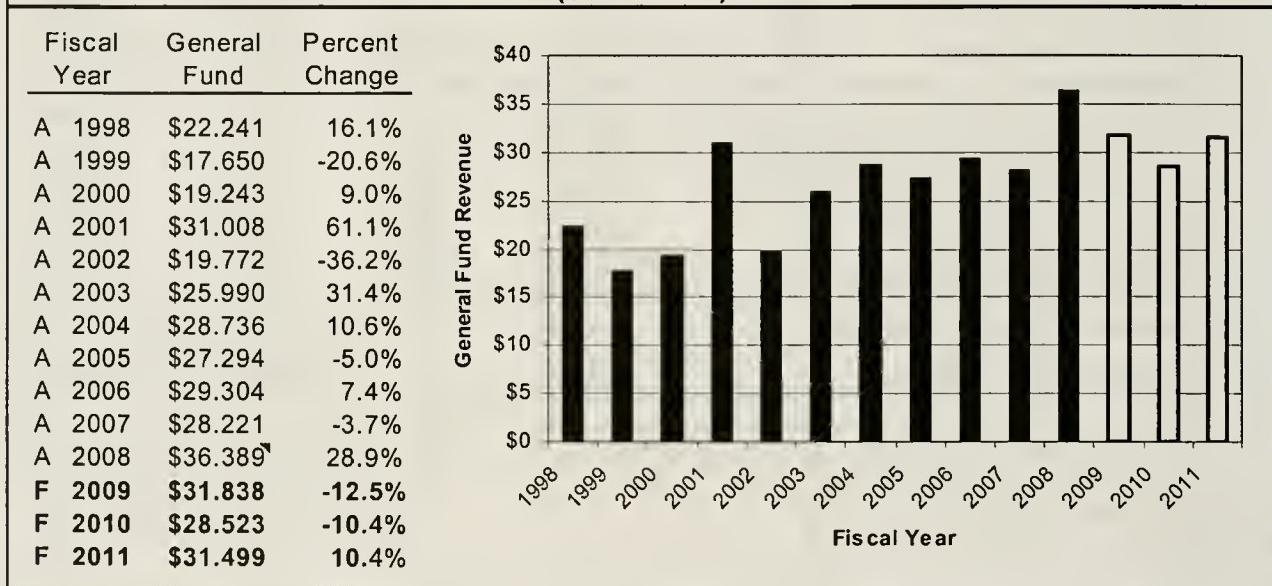
2011 Biennium

## Revenue Description

A portion of the minerals produced in Montana are derived from federal land. When the U.S. government leases public lands for mineral production, it pays part of the income to the state where the leased land is located. In the past, Montana received 50% of the royalty revenue from coal, oil, and natural gas production on federal lands within the state. With the passage of the federal budget for FY 2009, the federal government increased their share to 52% and effectively decreased the state share to 48%. From the state share, 75% is deposited in the general fund and 25% is deposited in a state special revenue fund for mineral impacts in accordance with 17-3-240, MCA.

Table 1 shows revenue to the general fund from U.S. mineral royalties

**Table 1**  
**U.S. Mineral Royalties Revenues**  
**(\$ millions)**



Receipts in FY 2001 include approximately \$8 million in payments for production in previous years that was collected due to audits. Without these audit collections, receipts would have been approximately \$23 million. Receipts in FY 2002 should have been higher, but \$1.7 million in royalties was paid late. This amount was recorded as an adjustment to the general fund ending balance rather than as revenue.

Prior to FY 2005, 12.5% of U.S. mineral royalty revenue was allocated to the counties. Currently, 25% of the U.S. mineral royalty revenue is allocated to counties. General fund revenue from U.S. mineral royalties fluctuates as mineral prices and production levels change. Changes in revenue for FY 2007 through FY 2009 are primarily attributable to price changes.

## Forecast Methodology

U.S. mineral royalty revenue is calculated in four steps.

**Step 1:** The gross value of production on federal land is forecast using the growth rates from other natural resource tax estimates.

The income generated from coal revenue is estimated using growth rate of the gross coal income from the Coal Severance Tax revenue estimate. The oil and gas income are also estimated using the growth rate estimated

in oil and gas gross income in the *Oil and Gas Severance Tax* revenue estimate. Rental and bonus income is estimated using the average of the past four fiscal years. Other income includes royalty income from sulfur and other types of mineral extraction. It is estimated using the average of the last five fiscal years, excluding FY 2007 due to its abnormally high level.

**Step 2:** The average royalty rate for each type of mineral production is then estimated. Multiplying the gross value by the estimated royalty rate yields the total royalty revenue from federal lands.

Royalty rental rates are estimated to stay at the FY 2007 level through FY 2011. The states portion is expected to remain the same for FY 2008 and then decreases two percentage points in FY 2009 as the federal government's share increases as discussed in the first paragraph or this estimate.

**Step 3:** The average percent remitted to the state is then estimated for each type of commodity. Although the requirement is for the federal government to remit 50% of the revenue to the state in FY 2008, the actual percentages are less than 50%. This is primarily due to the way federal leases are not all disbursed in the same manner. For example, a federal lease could be on General Services Administration (GSA), a federal agency of the United States government, land, in which case the revenue would be distributed 100% to the U.S. Treasury. Federal leases on Indian reservations also contribute to variation.

**Step 4:** The total royalty revenue is then multiplied by the state's share to yield total state revenue.

Table 2 shows the actual and forecasted revenues, royalty rates, and state revenue from federal mineral royalties for FY2001 through FY 2011. Due to the federal fiscal year, FY 2008 data is not available, and FY 2008 is also estimated.

Table 2  
U.S. Mineral Royalty Revenue  
(\$ millions)

Fiscal Year <sup>1</sup>	Coal Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Oil Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Natural Gas Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue
A 2001	\$236,940	11.44%	\$27,110	54.35%	\$14,734	\$90,934	11.52%	\$10,473	40.33%	\$4,224	\$75,410	12.26%	\$9,243	42.24%	\$3,905
A 2002	\$294,540	11.61%	\$34,182	41.95%	\$14,340	\$79,789	11.34%	\$9,052	38.33%	\$3,469	\$49,304	12.41%	\$6,121	34.79%	\$2,130
A 2003	\$318,585	11.77%	\$37,486	34.22%	\$12,828	\$109,341	11.33%	\$12,385	38.86%	\$4,812	\$79,257	12.37%	\$9,803	35.26%	\$3,457
A 2004	\$299,413	11.42%	\$34,201	45.97%	\$15,722	\$137,380	11.16%	\$15,336	39.06%	\$5,990	\$106,884	12.05%	\$12,884	40.11%	\$5,168
A 2005	\$274,574	11.98%	\$32,896	49.27%	\$16,208	\$194,277	11.46%	\$22,255	37.59%	\$8,365	\$150,990	11.82%	\$17,843	41.01%	\$7,318
A 2006	\$326,726	10.62%	\$34,695	42.65%	\$14,798	\$232,786	11.78%	\$27,433	38.43%	\$10,542	\$211,256	11.77%	\$24,875	42.11%	\$10,475
A 2007	\$364,386	10.95%	\$39,918	42.15%	\$16,827	\$230,818	11.46%	\$26,445	39.76%	\$10,515	\$180,376	11.01%	\$19,864	42.43%	\$8,428
F 2008	\$417,005	10.95%	\$45,683	42.15%	\$18,257	\$380,283	11.46%	\$43,569	39.76%	\$17,323	\$234,990	11.01%	\$25,879	42.43%	\$10,979
F 2009	\$413,748	10.85%	\$45,326	40.15%	\$18,200	\$281,807	11.48%	\$32,286	37.78%	\$12,192	\$215,858	11.01%	\$23,772	40.43%	\$9,810
F 2010	\$367,475	10.95%	\$40,257	40.15%	\$16,165	\$213,633	11.48%	\$24,478	37.76%	\$9,242	\$228,537	11.01%	\$25,188	40.43%	\$10,175
F 2011	\$372,686	10.95%	\$40,828	40.15%	\$16,394	\$278,817	11.46%	\$31,944	37.76%	\$12,062	\$248,185	11.01%	\$27,442	40.43%	\$11,084
Fiscal Year <sup>1</sup>	Rentals and Bonuses	Royalty Rate	Revenue	State Percentage	State Revenue	Other Revenue	Royalty Rate	Other Revenue	State Percentage	State Revenue	State Coal Revenue	State Oil Revenue	State Gas Revenue	Other State Revenue	Total State Revenue
A 2001	\$7,219	100%	\$7,219	59.60%	\$4,302	\$13,303	NA	\$13,303	30.58%	\$4,068	\$14,734	+	\$4,224	+	\$3,905 = \$31,233
A 2002	\$3,183	100%	\$3,183	67.80%	\$2,158	\$0,974	NA	\$0,974	23.82%	\$0,232	\$14,340	+	\$3,469	+	\$2,130 = \$22,329
A 2003	\$7,105	100%	\$7,105	39.72%	\$2,822	\$2,590	NA	\$2,590	50.81%	\$1,316	\$12,828	+	\$4,812	+	\$3,457 = \$25,235
A 2004	\$5,009	100%	\$5,009	59.91%	\$3,001	\$2,306	NA	\$2,306	17.94%	\$0,414	\$15,722	+	\$5,990	+	\$5,168 = \$30,295
A 2005	\$4,870	100%	\$4,870	42.53%	\$2,071	\$3,395	NA	\$3,395	47.16%	\$1,601	\$16,208	+	\$8,365	+	\$3,672 = \$35,562
A 2006	\$4,653	100%	\$4,653	39.56%	\$1,841	\$2,785	NA	\$2,785	20.85%	\$0,581	\$14,798	+	\$10,542	+	\$10,475 = \$38,236
A 2007	\$5,161	100%	\$5,161	41.83%	\$2,159	\$6,270	NA	\$6,270	19.61%	\$1,230	\$16,827	+	\$10,515	+	\$8,428 = \$39,158
F 2008	\$4,923	100%	\$4,923	41.83%	\$2,080	\$2,769	NA	\$2,769	19.61%	\$0,543	\$18,257	+	\$17,323	+	\$10,978 = \$50,163
F 2009	\$4,923	100%	\$4,923	39.83%	\$1,961	\$2,789	NA	\$2,789	17.61%	\$0,488	\$18,200	+	\$12,192	+	\$9,610 = \$42,451
F 2010	\$4,923	100%	\$4,923	39.83%	\$1,961	\$2,769	NA	\$2,769	17.61%	\$0,488	\$16,185	+	\$8,242	+	\$10,175 = \$38,030
F 2011	\$4,923	100%	\$4,923	39.83%	\$1,961	\$2,769	NA	\$2,769	17.61%	\$0,488	\$18,394	+	\$12,062	+	\$11,084 = \$41,999

<sup>1</sup>Fiscal year refers to the federal fiscal year from Oct. 1 to Sep. 30 of the following year

The bottom right corner shows the actual summation of state revenue from the five sources for FY 2001 through FY 2007 and forecasted values for FY 2008 through FY 2011.

## Distribution

U.S. mineral royalties are distributed to the general fund and the Mineral Impact Account in accordance with 17-3-240, MCA. Table 3 shows the actual distribution of U.S. mineral royalty revenue to the state of Montana from FY 2001 through FY 2001 through FY 2008, and forecasted values for FY 2009 through FY 2011.

**Table 3**  
**U.S. Mineral Royalty**  
**Revenue Distribution**  
**( $\$$  millions)**

Fiscal Year	General Fund (75%)	Mineral Impact (25%)	Total <sup>2</sup>
A 2001	\$31.008	-	\$31.008
A 2002	\$19.772	-	\$19.772
A 2003	\$25.990	-	\$25.990
A 2004	\$28.736	-	\$28.736
A 2005	\$27.294	\$9.098	\$36.392
A 2006	\$29.304	\$9.768	\$39.071
A 2007	\$28.221	\$9.407	\$37.628
A 2008	\$36.389	\$12.130	\$48.518
F 2009	<b>\$31.838</b>	<b>\$10.613</b>	<b>\$42.451</b>
F 2010	<b>\$28.523</b>	<b>\$9.508</b>	<b>\$38.030</b>
F 2011	<b>\$31.499</b>	<b>\$10.500</b>	<b>\$41.999</b>

<sup>2</sup>Total does not match table 3 due to the federal fiscal year and accrual reversals.

Prior to SB 212 (2005 session) all revenue was deposited to the general fund. SB 212 allocated 25% of the revenue to the Mineral Impact Account and the remaining 75% to the general Fund. Note that prior county allocations were transfers from the state general fund and not a direct revenue distribution.

### Data Sources

Historic general fund and Mineral Impact Account amounts are from SABHRS MTGL0109 report. Federal mineral statistics are available at

<http://www.mrm.mms.gov/MRMWebStats/Home.aspx>.

# Coal Severance Tax

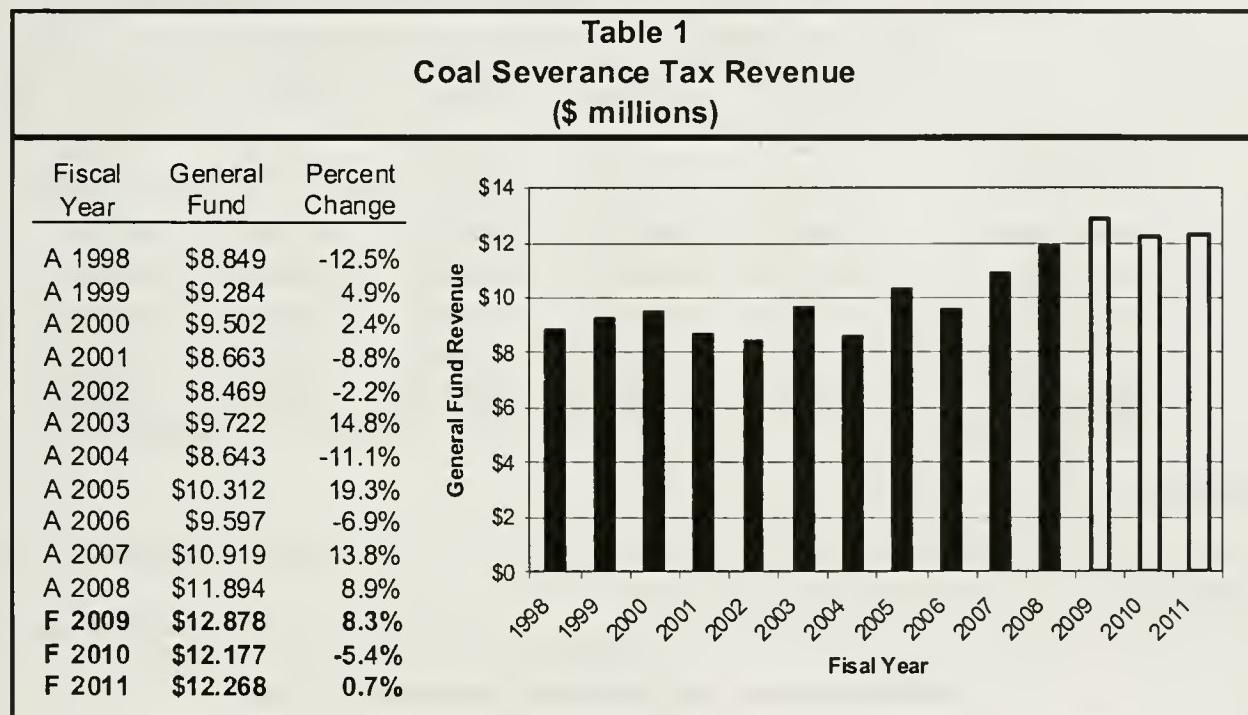
2011 Biennium

## Revenue Description

In accordance 15-35-103, MCA, Montana levies a tax on the value of coal produced in Montana. The tax rate on coal varies with heat content of the coal and the type of mine (open pit or underground). Each producer is exempt from tax on 20,000 tons per year, and mines producing less than 50,000 tons per year are exempt from the tax.

Table 1 shows actual coal severance tax revenue to the general fund for FY 1998 through FY 2008, and forecasted revenue for FY 2009 through FY 2011.

**Table 1**  
**Coal Severance Tax Revenue**  
**(\$ millions)**



In FY 2000 through FY 2002, the general fund received 26.79% of the tax. Under the provisions of HB 10 (2002 Special Session) the general fund received 33.04% of the tax revenue. In FY 2004 and FY 2005 the general fund allocation changed to 27.4% under HB 18 (2002 Special Session). HB 688 (2007 Session) established that beginning in FY 2008 \$250,000 will be allocated to coal and uranium mine permitting and reclamation program.

## Forecast Methodology

There are four main steps in forecasting total steps in calculating coal severance tax revenue:

**Step 1:** The quarterly prices are estimated using Global Insights forecast for determining the rate at which coal prices will increase. The heating quality of coal produced in Montana varies by mine. Coal with higher heating qualities receive a higher price and thus may pay more in taxes, and vice versa.

**Step 2:** Coal production is then estimated using responses from a coal survey sent to coal producers currently paying the severance tax.

**Step 3:** The deductions and exemptions are then estimated to yield taxable coal production. Deductions and exemptions include the first 20,000 tons produced in a year as well as the deductions for other state and federal tax liabilities related to coal production, such as the Black Lung Tax, the Coal Gross Proceeds tax, and others.

**Step 4:** The appropriate tax rate is then applied to yield total coal severance tax revenue. The tax rate varies depending on the properties of the coal and the type of production. If the average tax rate goes down, then this could have a negative effect on tax revenue and vice versa.

Table 2 shows the actual coal production, the average price per ton, total deductions, taxable revenue, the average tax rate, and total tax revenue for FY 2007 and FY 2008, and estimated values for FY 2009 through FY 2011.

<b>Table 2</b> <b>Coal Production</b> <b>(\\$ millions)</b>					
	<b>Actual</b>		<b>Forecast</b>		
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Tons (millions)	34.712	37.504	36.251	39.394	44.137
Average Price	x \$11.19	x \$11.56	x \$12.96	x \$12.83	x \$12.92
Gross Revenue	\$388.298	\$433.575	\$469.732	\$505.515	\$570.175
Exemptions	- \$117.897	- \$129.317	- \$139.764	- \$146.696	- \$164.170
Taxable Revenue	\$270.400	\$304.258	\$329.968	\$358.819	\$406.005
Average Tax Rate	x 14.84%	x 14.92%	x 14.85%	x 12.93%	x 11.51%
Tax Revenue	<b>\$40.119</b>	<b>\$45.410</b>	<b>\$49.003</b>	<b>\$46.387</b>	<b>\$46.725</b>

## Distribution

Coal Severance tax is distributed in accordance with 15-35-108, MCA. Table 3 shows the distribution of actual and estimated coal severance tax revenue for FY 2007 through FY 2011.

<b>Table 3</b> <b>Coal Severance Tax Revenue Allocation by Fund</b> <b>(\\$ millions)</b>				
<b>Entity</b>	<b>FY 2008 Actual<sup>1</sup></b>	<b>FY 2009 Projected</b>	<b>FY 2010 Projected</b>	<b>FY 2011 Projected</b>
Coal Tax Trust Fund (50%)	\$22.666	\$25.563	\$24.140	\$24.314
Long Range Building Program Account (12%)	\$5.440	\$6.135	\$5.794	\$5.835
Local Impacts (Shared Account) (5.46%)	\$2.475	\$2.792	\$2.636	\$2.655
Oil, Gas, and Coal Natural Resource Account (2.90%)	\$1.315	\$1.483	\$1.400	\$1.410
Parks Trust Fund (1.27%)	\$0.576	\$0.649	\$0.613	\$0.618
Renewable Resource Loan Debt Service Fund (0.95%)	\$0.431	\$0.486	\$0.459	\$0.462
Capitol Art Protection Trust Fund (0.63%)	\$0.286	\$0.322	\$0.304	\$0.306
DEQ Mine Permitting and Restoration (\$0.250)	\$0.250	\$0.250	\$0.250	\$0.250
<b>General Fund</b>	<b>\$11.894</b>	<b>\$13.447</b>	<b>\$12.684</b>	<b>\$12.778</b>
<b>Total Coal Severance Tax</b>	<b>\$45.332</b>	<b>\$51.127</b>	<b>\$48.279</b>	<b>\$48.628</b>

<sup>1</sup>Total revenue does not match table 2 due to accrual adjustments

## **Data Sources**

Historical coal statistics were obtained for the Department of Revenue coal severance tax returns. Forecasted production levels are from survey responses from the coal companies which pay the coal severance tax. Forecasted coal inflation factors were obtained from Global Insight.

# Metalliferous Mines License Tax

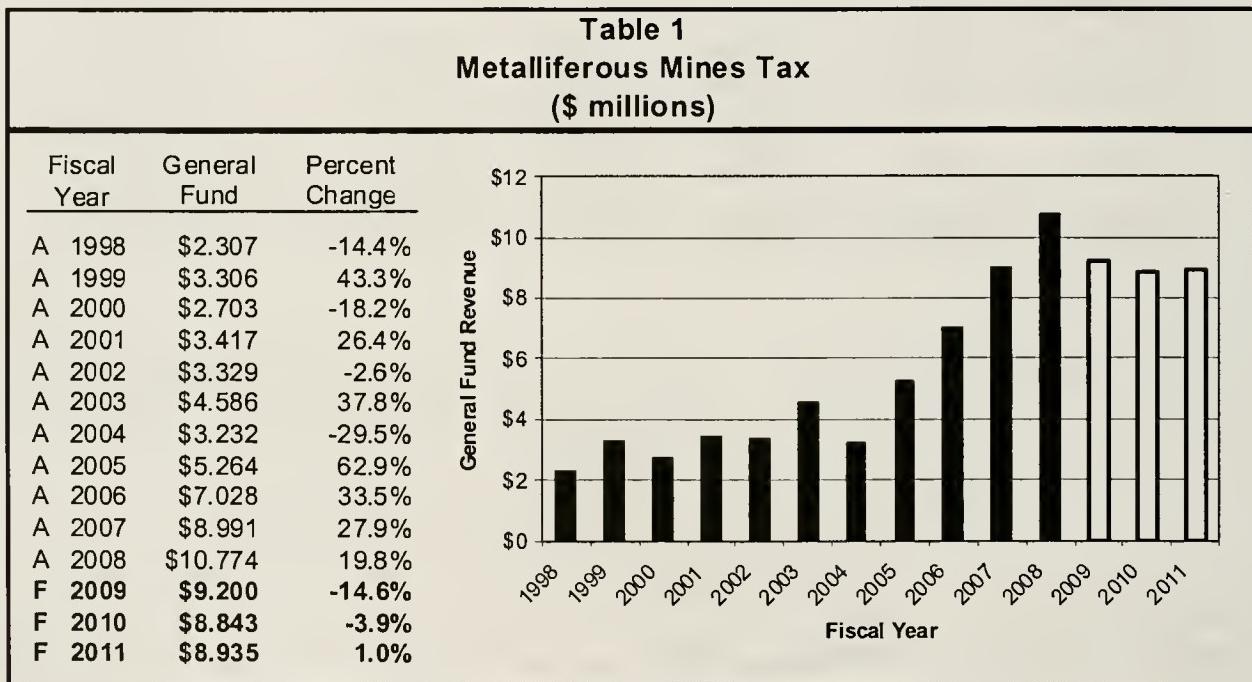
2011 Biennium

## Revenue Description

In accordance 15-37-101, MCA, Montana levies a tax on the gross value of metals mined in the state. Gross value, as defined in 15-23-801, MCA, is the market value of the refined product, less the costs of transporting the unrefined product and refining it. The first \$250,000 of gross value is exempt from the tax, which exempts small mines from the tax. The tax rate for production beyond \$250,000 depends on the mineral and the amount of processing at the mine. Concentrate, which is non-smelted ore that may have undergone mechanical processing, is taxed at 1.81%. Metals that have been partially or completely separated from impurities by smelting, but may not have had the individual metals separated, are taxed at 1.6% (15-37-103, MCA).

Revenues from the metalliferous mines license tax are divided between the state and counties that have fiscal or economic impacts from large-scale mining. The state general fund currently receives 57% of the revenue. Table 1 shows actual revenue to the general fund for FY 1998 through FY 2008, and forecasted values for FY 2009 through FY 2011.

**Table 1**  
**Metalliferous Mines Tax**  
**(\$ millions)**



Prior to FY 2006 the general fund received 58%, except for FY 2003 when the general fund received 65% of the tax revenue.

Revenue from the metal mines tax has varied across years because of changes in the tax due date, changes in production, and price variation. Through December 31, 2002, the tax was paid annually. Beginning January 1, 2003, the tax is paid semiannually. This resulted in taxes on eighteen months of production being recorded as revenue in FY 2003. Revenue increased from FY 2004 through FY 2006 due to production increases in FY 2005 and price increases in FY 2006 through FY 2008, which are forecast to decrease in FY 2009 and FY 2010.

## Forecast Methodology

There are five steps in estimating metal mines tax revenue:

**Step 1:** An inflation factor for each of the different types of metals is calculated based on changes in futures contracts in the New York Mercantile Exchange (NYMEX) and forecasted metal and metal products inflation factors from

Global Insight.

- Step 2:** The amount of production for each type of metal is then estimated based on survey responses for the major metal producers in the state of Montana. Currently, Montana production consists of gold, silver, platinum, palladium, lead, zinc, rhodium, molybdenum.
- Step 3:** Metal producers are also allowed to deduct transportation, treatment, and refining costs from the gross value to yield taxable value. As these cost go up, tax revenue will go down, and vice versa. The various deductions are estimated for each of the producing mines and deducted from the gross value of the minerals.
- Step 4:** The estimated average tax rate is then applied to each company to yield that companies tax liability.
- Step 5:** Each company's tax liability is then added with the other companies for each fiscal year to yield total tax revenue.

Table 2 shows prices for metal produced in Montana.

**Table 2**  
**Montana Average Metal Prices**  
**FY 2004 Through FY 2011**

Fiscal Year	Price Per Ounce					Price Per Pound				
	Rhodium	Platinum	Gold	Palladium	Silver	Molybdenum	Nickle	Copper	Lead	Zinc
A 2004	\$670.66	\$735.46	\$384.81	\$364.95	\$5.94	\$11.52	\$5.37	\$0.85	\$0.34	\$0.46
A 2005	\$1,507.60	\$848.16	\$425.81	\$363.32	\$6.83	\$29.18	\$6.84	\$1.18	\$0.45	\$0.57
A 2006	\$3,428.66	\$979.37	\$526.19	\$364.01	\$9.27	\$25.52	\$5.93	\$2.44	\$0.48	\$0.98
A 2007	\$5,431.96	\$1,145.03	\$644.90	\$375.56	\$12.97	\$27.52	\$16.22	\$3.39	\$1.08	\$1.66
A 2008	\$7,613.49	\$1,675.15	\$839.07	\$408.96	\$16.04	\$32.58	\$13.13	\$3.71	\$1.32	\$1.04
F 2009	\$5,571.18	\$1,443.31	\$855.11	\$278.58	\$14.98	\$31.29	\$11.40	\$2.32	\$1.14	\$0.93
F 2010	\$5,371.89	\$1,391.73	\$861.41	\$268.51	\$15.23	\$30.14	\$10.99	\$2.33	\$1.10	\$0.90
F 2011	\$5,421.12	\$1,404.49	\$878.75	\$270.98	\$15.56	\$30.41	\$11.09	\$2.30	\$1.11	\$0.91

The prices on the left side of the table are listed in dollars per ounce, while the prices listed on the right side of the table are in dollars per pound. NYMEX future prices were used to calculate the prices for gold, silver, and copper, while the inflation factor for metals and metal products forecasted by Global Insight was used to calculate the prices of all other types of metals produced in Montana.

Table 3 shows the gross value of all metal products in Montana, deductions taken by the metal producers, the average tax rate, and the total tax revenue generated for the metal mines license tax.

Table 3				
Metal Mines Production Forecast (\$ millions)				
Fiscal Year	Gross Value	Deductions	Average Tax Rate	Tax Revenue
A 2007	( \$1,033.514 - \$95.640 )X		1.71%	= \$16.057
A 2008	( \$1,302.924 - \$98.540 )X		1.72%	= \$20.688
F 2009	( \$1,046.441 - \$107.489 )X		1.72%	= \$16.141
F 2010	( \$1,023.137 - \$119.247 )X		1.72%	= \$15.515
F 2011	( \$1,040.378 - \$126.093 )X		1.71%	= \$15.675

## Distribution

Table 4 shows the distribution of the metal mines tax to the various entities in accordance with 15-37-117, MCA.

**Table 4**  
**Total Collections and Allocation of Metal Mines Tax**  
**(*\$ millions*)**

Entity	Actual FY 2008 <sup>1</sup>	Projected FY 2009	Projected FY 2010	Projected FY 2011
General Fund (57%)	\$10.774	\$9.200	\$8.843	\$8.935
Hard-Rock Mining Impact Trust (2.5%)	\$0.473	\$0.404	\$0.388	\$0.392
Impacted Counties (25.0%)	\$4.726	\$4.035	\$3.879	\$3.919
Natural Resource Operations (7.0%)	\$1.323	\$1.130	\$1.086	\$1.097
Hard-Rock Mining Reclamation Debt Service (8.5%)	\$1.607	\$1.372	\$1.319	\$1.332
<b>Total Collections</b>	<b>\$18.902</b>	<b>\$16.141</b>	<b>\$15.515</b>	<b>\$15.675</b>

<sup>1</sup>Totals do not match Table 3 due to accruals and amended returns

## Data

Historic Montana production, value, and deduction data was obtained from the Department of Revenue tax records. Future production and deduction estimates were obtained from a survey of metal mines producers large enough to pay the tax. Price forecasts are based on Global Insights metal and metal products inflation factor and future contracts from <http://www.nymex.com>.

# Electric Energy Producer's License Tax

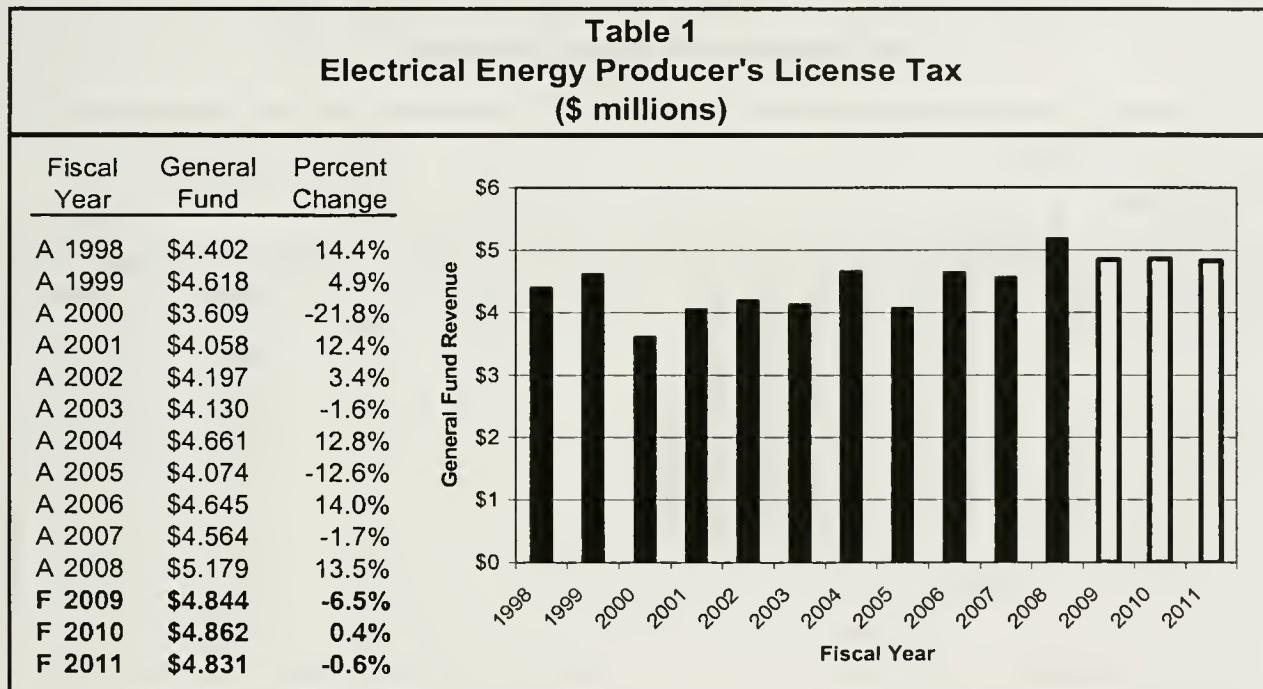
2011 Biennium

## Revenue Description

In accordance 15-51-101, MCA, Montana levies an electric energy producer's license tax at a rate of \$0.0002 per kilowatt-hour (kWh). The tax applies to all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange. Electricity generated for plant use is excluded from the tax. All electrical energy producer's license tax revenue is allocated to the general fund.

Table 1 shows actual revenue to the general fund revenue from the electrical energy producer's license tax for FY 1998 through FY 2008, and forecasted revenues for FY 2009 through FY 2011.

**Table 1**  
**Electrical Energy Producer's License Tax**  
**(\$ millions)**



## Forecast Methodology

The electrical energy tax is forecast in two main steps:

**Step 1:** Total taxable electricity production is forecast using trends over time, and survey responses from electricity producers in the state.

**Step 2:** The tax rate of 0.02¢ per KWH is multiplied by the estimated amount of taxable electricity produced in the state to yield total tax revenue.

Table 2 shows the actual electricity production and tax revenue for FY 2004 through FY 2008, and forecasted values for FY 2009 through FY 2011.

**Table 2**  
**Electricity Production Tax Revenue**  
**( $\$$  millions)**

Fiscal Year	kWh (millions)	Tax Rate	Tax Revenue <sup>1</sup>
A 2005	23,065.262 X	\$0.0002 =	\$4.613
A 2006	23,156.213 X	\$0.0002 =	\$4.631
A 2007	23,160.458 X	\$0.0002 =	\$4.631
A 2008	23,489.093 X	\$0.0002 =	\$4.698
F 2009	24,221.103 X	\$0.0002 =	\$4.844
F 2010	24,312.300 X	\$0.0002 =	\$4.862
F 2011	24,155.714 X	\$0.0002 =	\$4.831

<sup>1</sup>Total Revenue does not match table 1 due to accrual adjustments and amended returns.

## Data Sources

Historical electricity data was provided by the Department of Revenue. Global Insight's forecast for utility production index and survey responses from electricity producers in the state of Montana were used to forecast electricity production in the state.

# Wholesale Energy Transaction Tax

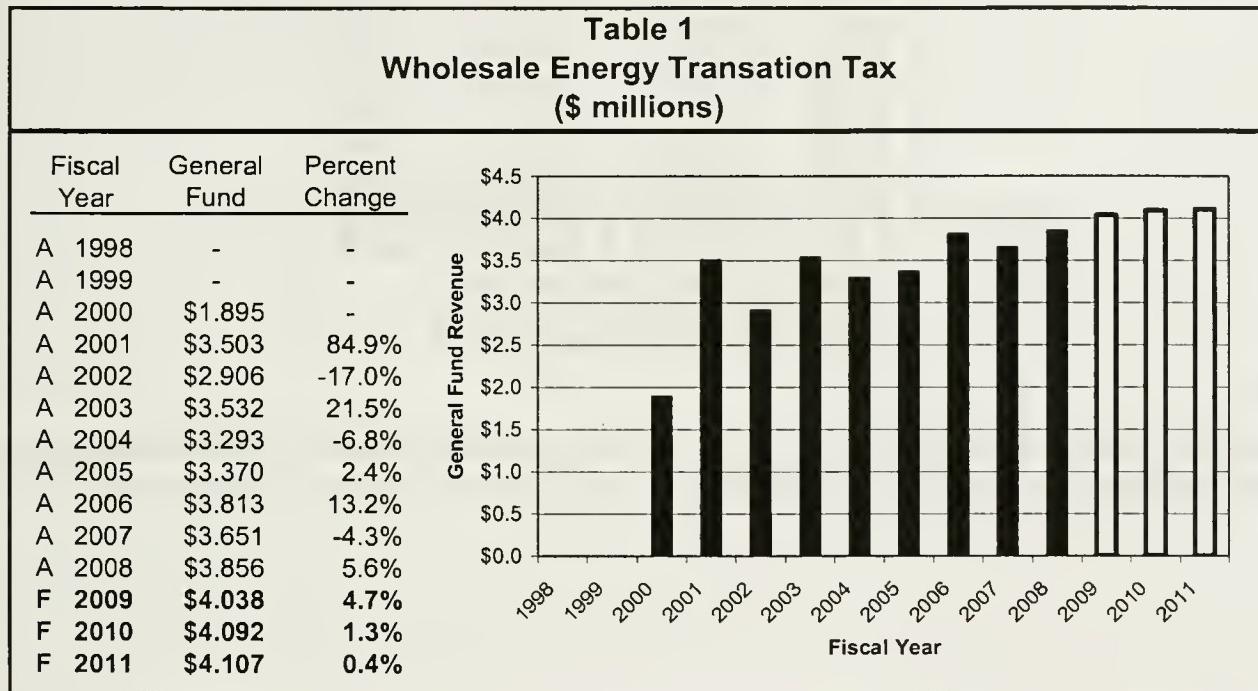
2011 Biennium

## Revenue Description

In accordance 15-72-103, MCA, Montana levies a wholesale energy transaction (WET) tax at a rate of 0.015¢ per kilowatt-hour (kWh) on electricity transmitted by a transmission service provider in the state. This tax was effective January 1, 2000 and is deposited 100% in the state general fund.

Table 1 shows actual general fund revenue from the WET tax from FY 2000 through FY 2008 and forecasted values for FY 2009 through FY 2010.

**Table 1**  
**Wholesale Energy Transaction Tax**  
(\$ millions)



HB 174 (1999 session) enacted the tax, and it took effect in January 1, 2000. In FY 2000 the tax was therefore only collected for half of the fiscal year.

## Significant Factor

- There has been an investment to electricity infrastructure in Montana recently. Specifically a transmission line that would connect Montana to Canadian electricity markets. In FY 2009 this project (Montana Alberta Tie Ltd. or MATL) is scheduled for completion and will increase electricity transmitted in Montana.

## Forecast Methodology

The WET tax revenue is forecast in two major steps:

**Step 1:** Taxable electricity transmission is forecast using trends over time, and survey responses from tax filers.

**Step 2:** The tax rate of 0.015¢ per kWh is then applied to the estimated amount of electricity transmitted in the state to yield total tax revenue.

Table 2 shows actual taxable electricity and tax revenue for FY 2001 through FY 2008, and forecasted values for FY 2009 through FY 2011.

**Table 2**  
**Taxable KWH for Wholesale Energy**  
**Tax**  
**(\\$ millions)**

Fiscal Year	Taxable KWH (million)	Tax Rate	Tax Revenue <sup>1</sup>
A 2001	21,930.454	x 0.00015 =	\$3.290
A 2002	22,077.361	x 0.00015 =	\$3.312
A 2003	22,474.593	x 0.00015 =	\$3.371
A 2004	23,235.939	x 0.00015 =	\$3.485
A 2005	23,576.673	x 0.00015 =	\$3.537
A 2006	24,112.351	x 0.00015 =	\$3.617
A 2007	24,609.110	x 0.00015 =	\$3.691
A 2008	25,396.158	x 0.00015 =	\$3.809
F 2009	26,917.860	x 0.00015 =	\$4.038
F 2010	27,277.288	x 0.00015 =	\$4.092
F 2011	27,379.447	x 0.00015 =	\$4.107

<sup>1</sup> Revenues do not match table 1 due to accrual adjustments and amended returns.

## Data

Historic data on electricity transmission was provided by the Department of Revenue. Future Electricity transmission was forecast using survey responses and Global Insight's forecast for utility production index in Montana.



GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## INTEREST EARNINGS SECTION 5

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING



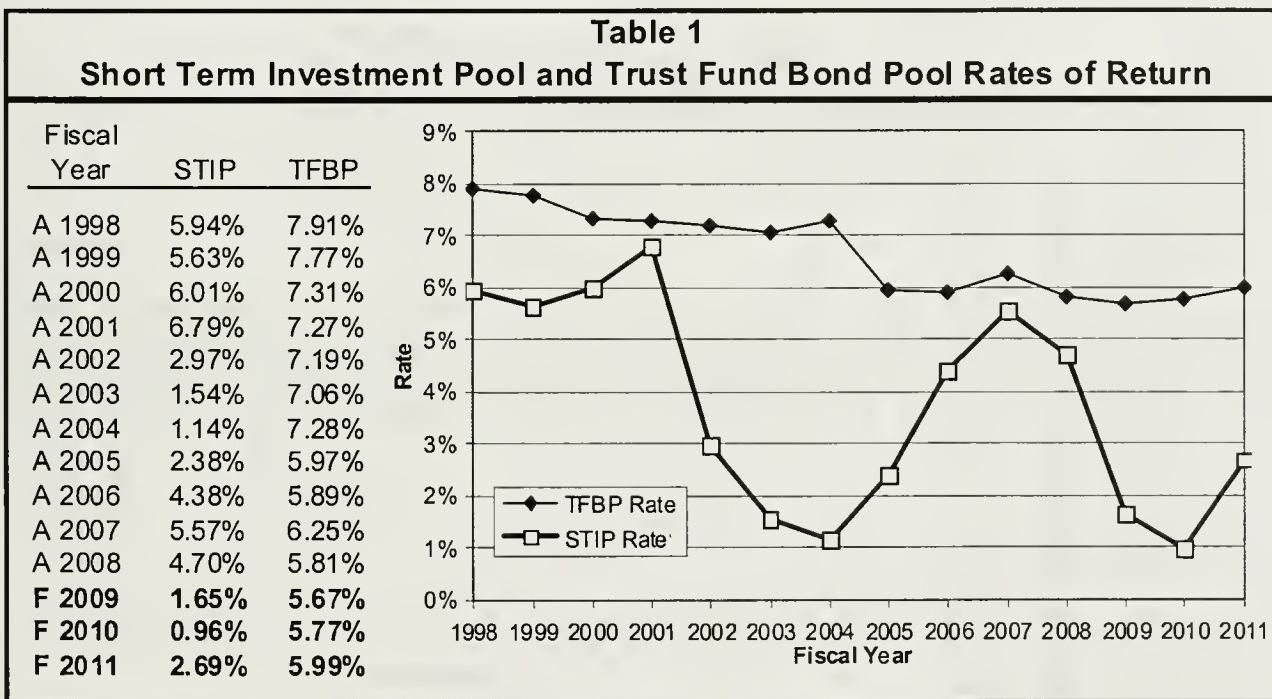
# Interest Rates Introduction

2011 Biennium

## Revenue Description

The Board of Investment (BOI) manages trust fund balances and invests agency cash balances for the state. The board invests most of the agency cash and a small portion of fund balances in the short term investment pool (STIP). The STIP is managed like a money market account so that daily withdrawals and deposits are allowed and the pool still earns interest. The board also manages trust fund balances in the Trust Fund Bond Pool (TFBP). The TFBP's portfolio is mainly comprised of long-term bonds and is managed in such a way to try to provide consistent interest earnings. The estimates for the rates of return are used to forecast revenue earnings for the treasury cash account, the common school trust, the various coal trusts, and several other funds.

Table 1 shows actual annual percentage interest rates of both STIP and TFBP in FY 1998 through FY 2008 and projections for FY 2009 through FY 2011.



The STIP rate decreased substantially from FY 2001 to FY 2004 due to a collapse in short-term interest rates. Short-term interest rates started rising through FY 2007. Turmoil in the national economy, beginning in FY 2008, caused the Federal Open Market Committee (FOMC) to cut their target federal funds rate in order to help stimulate the economy. The federal funds rate is the rate at which banks lend each other overnight to meet daily reserve requirements, and this rate is a benchmark for many other types of short term interest rates. The FOMC is expected to keep their target rate close to 1% for all of FY 2009. As the economy recovers, the FOMC is then expected to slowly raise rates as the economy recovers.

The TFBP yield has been slowly decreasing since FY 1998. The reason for the decrease is primarily due to the fact that as older bonds, with relatively high rates of return, were slowly being replaced with new bonds that had relatively lower rates of return. The TFBP rate increase in FY 2004 was caused in large part because of the sale of older bonds with higher interest rates. The unusually large decrease in TFBP yield in FY 2005 was caused largely by unusually large capital loss. TFBP yields are anticipated to continue declining in FY 2009 before increasing through FY 2011.

## Risks

- The FOMC may raise or lower interest rates faster or slower than anticipated.
- If the national economy were to enter a deep recession, the will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.

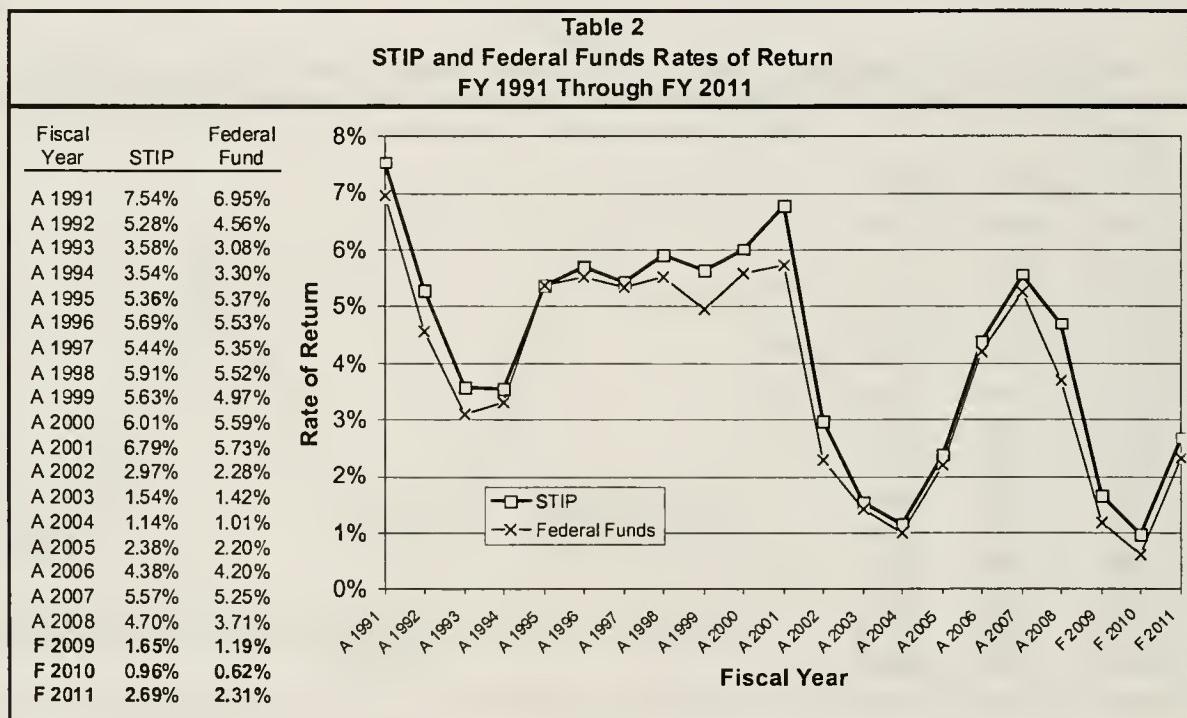
## Forecast Methodology

There are two steps in calculating the STIP rate of return:

**Step 1:** Examine the relationship between the federal fund rate and the STIP rate of return using a statistical regression.

**Step 2:** Apply this relationship to the Global Insight forecast for the federal fund rate.

Table 2 show the actual annual average STIP and federal funds rate for FY 1990 through FY 2008 and forecasted values for FY 2009 though FY 2011.



There are four steps in calculating the TFBP rate of return:

**Step 1:** Determine which bonds will mature.

**Step 2:** Assume that the new bonds will be reinvested in similar bonds. That these bonds will receive a return equal to the Global Insight forecast, which is not necessarily the same rate as the matured bonds.

**Step 3:** Bonds that have not yet matured will continue to receive there current returns.

**Step 4:** Calculate the total rate of return for the TFBP.

Table 3 shows the estimated book value, income, and rate of return for both the non maturing bonds and the new bonds being purchased.

**Table 3**  
**Trust Fund Bond Pool Forecast**  
**( $\$$  millions)**

<b>TFBP Components</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Non Maturing Bonds			
Book Value <sup>1</sup>	\$1,415.5	\$1,418.0	\$1,381.0
Income	\$79.6	\$81.1	\$81.6
Rate of Return	5.62%	5.72%	5.91%
New Bonds			
Book Value	\$28.0	\$29.1	\$77.1
Income	\$2.3	\$2.4	\$5.8
Rate of Return	8.17%	8.12%	7.49%
<b>Total</b>			
<b>Book Value</b>	<b>\$1,443.5</b>	<b>\$1,447.1</b>	<b>\$1,458.1</b>
<b>Income</b>	<b>\$81.9</b>	<b>\$83.5</b>	<b>\$87.3</b>
<b>Rate of Return</b>	<b>5.67%</b>	<b>5.77%</b>	<b>5.99%</b>

<sup>1</sup>This amount does not include CRP, a small amount of STIP, and 4 investments that have a different structure, but are assumed to have comparable yields.

## Data Sources

The State Street Bank and BOI provide monthly reports on STIP and TFBP investment earnings and balances. TFBP specific data was obtained from the Board of Investment's website at <http://www.investmentmt.com>. Historic Federal Funds Rate can be found at <http://www.federalreserve.gov/releases/h15/data.htm>. Forecasted Baa corporate bond and federal funds rates of return are from Global Insight's U.S. Economic Outlook.

# Coal Trust Interest Earnings

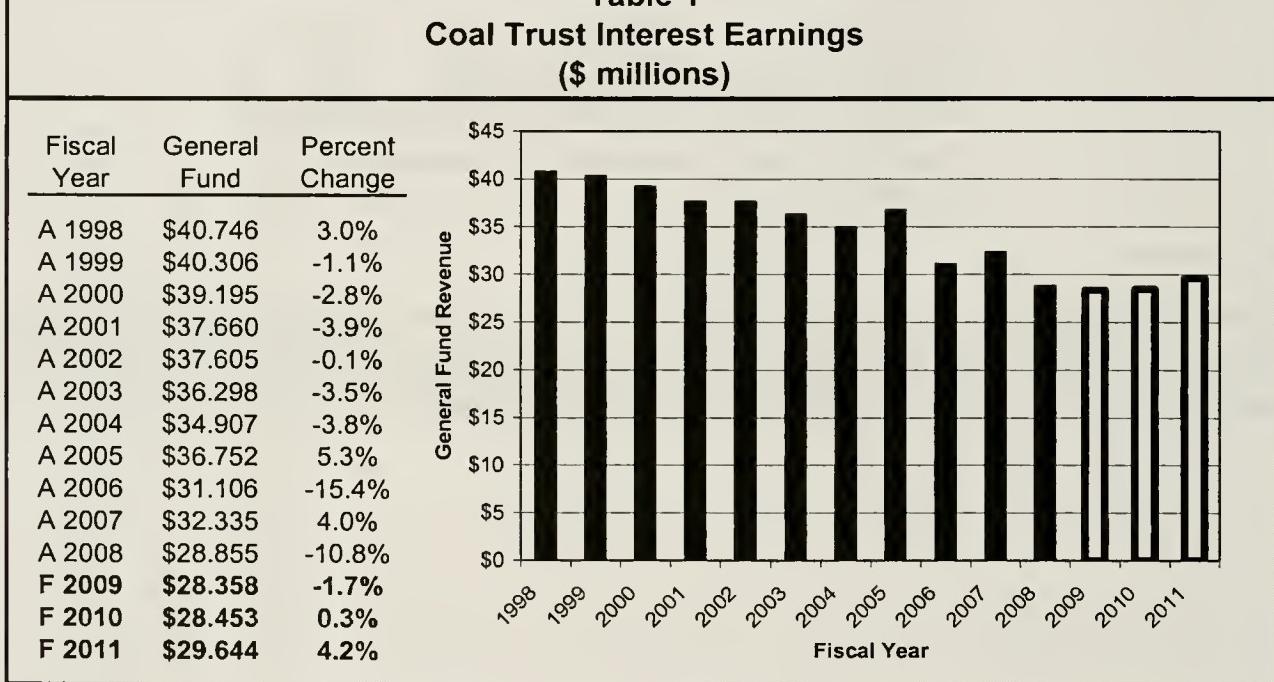
2011 Biennium

## Revenue Description

Article 1X, Section 5 of the Montana Constitution established the coal severance tax permanent trust fund into which at least half of coal severance tax revenue must be deposited. Under current law, half of the severance tax revenue is deposited in the trust fund, which is divided into several funds with different purposes. The trust funds are described in more detail in the *Introduction to the Coal Trusts*. Interest earnings from the coal severance tax permanent fund and the coal severance tax bond fund are allocated to the general fund.

Table 1 shows actual interest earnings allocated from the coal severance tax permanent fund and the coal severance tax bond fund to the general fund from FY 1998 through FY 2008 and the revenue forecasts for FY 2009 through FY 2011.

**Table 1**  
**Coal Trust Interest Earnings**  
**(\$ millions)**



General fund revenue from the coal severance tax permanent fund fell every year from FY 1998 through FY 2004. This was primarily caused by declining long-term interest rates. In FY 2005, revenue from the coal trust increased because there were capital gains of \$0.9 million and a \$1.5 million increase in loan interest income, which offset declines in bond interest income. A \$20 million in fund balance transfer to the big sky economic development fund decreased income in FY 2006. In FY 2009, coal trust interest revenue is projected to fall due to falling interest rates, and then increase in FY 2010 and FY 2011 as interest rates increase.

## Forecast Methodology

The interest earnings are forecast in 3 main steps:

**Step 1:** The composition of the assets in the fund is first estimated. The fund is invested primarily in the TFBP, but it is also partially invested in STIP and commercial loans.

**Step 2:** Apply the forecasted rates of return for each type of investment.

**Step 3:** Estimate other income and administrative costs, and then add all of the pieces together.

The Permanent Fund is invested in commercial loans, the Trust Fund Bond Pool (TFBP), and the Shot Term Investment Pool (STIP). Table 2 shows the actual average balance, income, and rate of return for each type of investment as well as the fund totals for FY 1998 through FY 2008 and forecasted values for FY 2009 through FY 2011.

Table 2 Coal Trust Interest Income (\$ millions)							
Fiscal Year	Loan Income			TFBP Income			
	Balance <sup>1</sup>	Interest Rate	Income <sup>2</sup>	Fiscal Year	Balance <sup>1</sup>	Interest Rate	Income <sup>2</sup>
A 1998	\$114.49	5.83%	\$6.68	A 1998	\$402.37	7.98%	\$32.10
A 1999	\$114.09	6.09%	\$6.95	A 1999	\$412.31	7.83%	\$32.30
A 2000	\$128.43	5.76%	\$7.40	A 2000	\$411.44	7.38%	\$30.38
A 2001	\$129.51	5.56%	\$7.20	A 2001	\$401.25	7.34%	\$29.46
A 2002	\$144.97	5.93%	\$8.60	A 2002	\$366.60	7.19%	\$26.36
A 2003	\$183.67	5.79%	\$10.63	A 2003	\$340.95	7.12%	\$24.29
A 2004	\$161.09	5.65%	\$9.09	A 2004	\$350.68	7.33%	\$25.69
A 2005	\$169.40	6.22%	\$10.54	A 2005	\$358.51	6.84%	\$24.52
A 2006	\$165.47	5.26%	\$8.70	A 2006	\$324.78	5.87%	\$19.05
A 2007	\$201.53	5.06%	\$10.20	A 2007	\$311.42	6.18%	\$19.24
A 2008	\$191.09	5.06%	\$9.67	A 2008	\$311.15	5.77%	\$17.95
F 2009	\$191.09	5.06%	\$9.67	F 2009	\$311.15	5.67%	\$17.65
F 2010	\$191.09	5.06%	\$9.67	F 2010	\$311.15	5.77%	\$17.94
F 2011	\$191.09	5.06%	\$9.67	F 2011	\$311.15	5.99%	\$18.63
Fiscal Year	Stip Income			Trust Fund Total			
	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 1998	\$14.21	5.62%	\$0.80	A 1998	\$531.08	7.45%	\$39.57
A 1999	\$12.32	5.56%	\$0.68	A 1999	\$538.72	7.41%	\$39.94
A 2000	\$13.51	5.35%	\$0.72	A 2000	\$553.38	6.96%	\$38.50
A 2001	\$13.85	6.38%	\$0.88	A 2001	\$544.61	6.89%	\$37.54
A 2002	\$28.80	2.99%	\$0.86	A 2002	\$540.37	6.63%	\$35.83
A 2003	\$18.40	1.43%	\$0.26	A 2003	\$543.02	6.48%	\$35.18
A 2004	\$32.43	1.12%	\$0.36	A 2004	\$544.20	6.46%	\$35.15
A 2005	\$20.89	2.38%	\$0.50	A 2005	\$548.79	6.48%	\$35.55
A 2006	\$41.88	4.26%	\$1.78	A 2006	\$532.12	5.55%	\$29.54
A 2007	\$18.19	5.58%	\$1.01	A 2007	\$531.13	5.73%	\$30.46
A 2008	\$28.92	4.33%	\$1.25	A 2008	\$531.15	5.44%	\$28.87
F 2009	\$28.92	1.65%	\$0.48	F 2009	\$531.15	5.23%	\$27.80
F 2010	\$28.92	0.96%	\$0.28	F 2010	\$531.15	5.25%	\$27.89
F 2011	\$28.92	2.69%	\$0.78	F 2011	\$531.15	5.48%	\$29.08

<sup>1</sup>Balances are adjusted for SB495 loan to common schools.

<sup>2</sup>Income amount are adjusted for sb495 loan payments from the common schools.

Although the Montana constitution says one half of revenue from the coal severance tax is to be deposited in a trust fund, there are four coal trust sub-funds that receive revenue from the coal severance tax. Besides the Coal Severance Tax Permanent Fund that benefits the state general fund, there is also the Treasure State Endowment Fund, the Treasure State Endowment Regional Water Systems Fund, and the Big Sky Economic Development Fund. Currently, the three sub-funds receive the 50% of the coal severance tax as established in Article 1X, Section 5 of the Montana Constitution. Since no new money is deposited in the Coal Severance Tax Permanent Fund from the coal severance tax until FY 2016, the balance is projected to remain at FY 2008 levels for FY 2009 through FY 2011.

Loan rates have remained relatively stable as interest rates have fluctuated and are continued to remain stable in FY 2009 through FY 2011. The primary reason these interest rates have not fluctuated as much is due to the fact that many of these loans are economic development loans that include rate reductions. The TFFB and STIP rates are forecast in the *Interest Rate Introduction* section.

Table 3 shows actual administrative expenses, capital gains income, other income, and interest income for FY 2001 through FY 2008 and forecasted income for FY 2009 through FY 2010. The last column also shows the overall rate of return for the Coal Severance Tax Permanente Trust Fund.

Table 3 Coal Trust Total General Fund Revenue (\$ millions)							
Fiscal Year	Interest Income	Capital Gain	Other Revenue	Admin. Expense	Total Revenue		Implied Rate of Return
A 2001	37.54	+ 0.00	+ 0.29	+ (0.17)	= 37.66		6.91%
A 2002	35.83	+ 0.30	+ 1.79	+ (0.32)	= 37.61		6.96%
A 2003	35.18	+ 0.65	+ 0.85	+ (0.38)	= 36.30		6.68%
A 2004	35.15	+ 0.00	+ 0.25	+ (0.49)	= 34.91		6.41%
A 2005	35.55	+ 0.86	+ 0.81	+ (0.47)	= 36.75		6.70%
A 2006	29.54	+ 0.34	+ 1.61	+ (0.39)	= 31.11		5.85%
A 2007	30.46	+ 0.53	+ 1.63	+ (0.28)	= 32.33		6.09%
A 2008	28.87	+ 0.00	+ 0.37	+ (0.39)	= 28.85		5.43%
F 2009	27.80	+ 0.00	+ 0.95	+ (0.39)	= 28.36		5.34%
F 2010	27.89	+ 0.00	+ 0.95	+ (0.39)	= 28.45		5.36%
F 2011	29.08	+ 0.00	+ 0.95	+ (0.39)	= 29.64		5.58%

Occasionally Permanent Fund TFBP shares are sold. An example of this is the shares sold to finance the Big Sky Economic Development fund transfer in FY 2005. About 186,000 shares were sold for a capital gain of \$0.86 million. The capital gain occurred because the TFBP share price at the time of sale was more than the average price paid for TFBP shares in the permanent fund. No capital gains are forecast for FY 2009 through FY 2010.

The other revenue category consists mainly of two sources. 1). The Permanent Fund also receives income from a bond fund that is set up to provide debt security for bonds called coal severance tax bonds. This balance earns a small amount of interest. 2).The interest earnings from the permanent fund and the bond fund are deposited into the coal tax income fund. Although the income fund balance is swept monthly into the general fund, it is invested in STIP during the interim. The income from this investment is returned to the income fund before being deposited into the general fund. These two combined sources of revenue are forecast using the average for FY 2001 through FY 2008.

The administrative expenses are forecast to remain at their FY 2008 levels for FY 2009 through FY 2010.

## Data Sources

The State Street Bank and BOI provide monthly reports on the trust fund balances and income. Fiscal year end revenues and administrative expenses were obtained from SABHRS.

# Treasury Cash Account (TCA) Interest

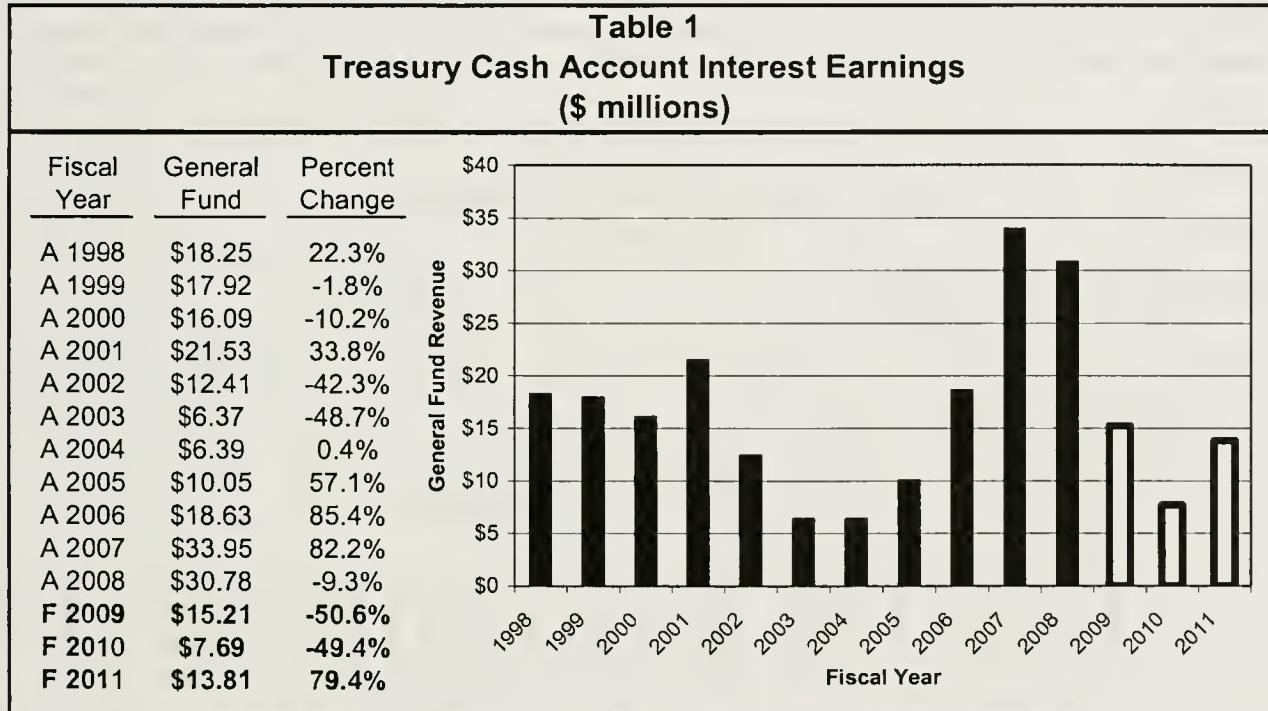
2011 Biennium

## Revenue Description

The treasury cash account (TCA) contains general fund cash balances and cash balances from several other funds whose interest earnings are deposited into the general fund. The Board of Investments (BOI) invests TCA balances and the interest earned is paid into the general fund. In some years, the state borrows money to maintain a positive balance in the general fund by issuing tax or revenue anticipation notes (TRANS). TRANS are short-term bonds that are repaid in the same fiscal year that they are issued. Issuing TRANS increases the average balance in the TCA and, therefore, increases the interest earned on the account. However, the state pays interest on the TRANS.

Table 1 shows actual revenue generated from the treasury cash account for FY 1998 though FY 2008, and projected revenues for FY 2009 through FY 2010.

**Table 1**  
**Treasury Cash Account Interest Earnings**  
**(\$ millions)**



In FY 2003 and FY 2004, short-term interest rates were very low and TCA interest earnings decreased to less than \$6.4 million per year. Interest earnings increased in FY 2005 through FY 2007 due to increased balances and higher short-term interest rates. Both the average balance and short term rates are expected to decline in coming years. These two factors are the primary reasons interest earnings will decline from FY 2007 and FY 2008 levels. Short-term interest rates are expected to remain low in FY 2009 before beginning to increase in FY 2010 and FY 2011.

## Risks

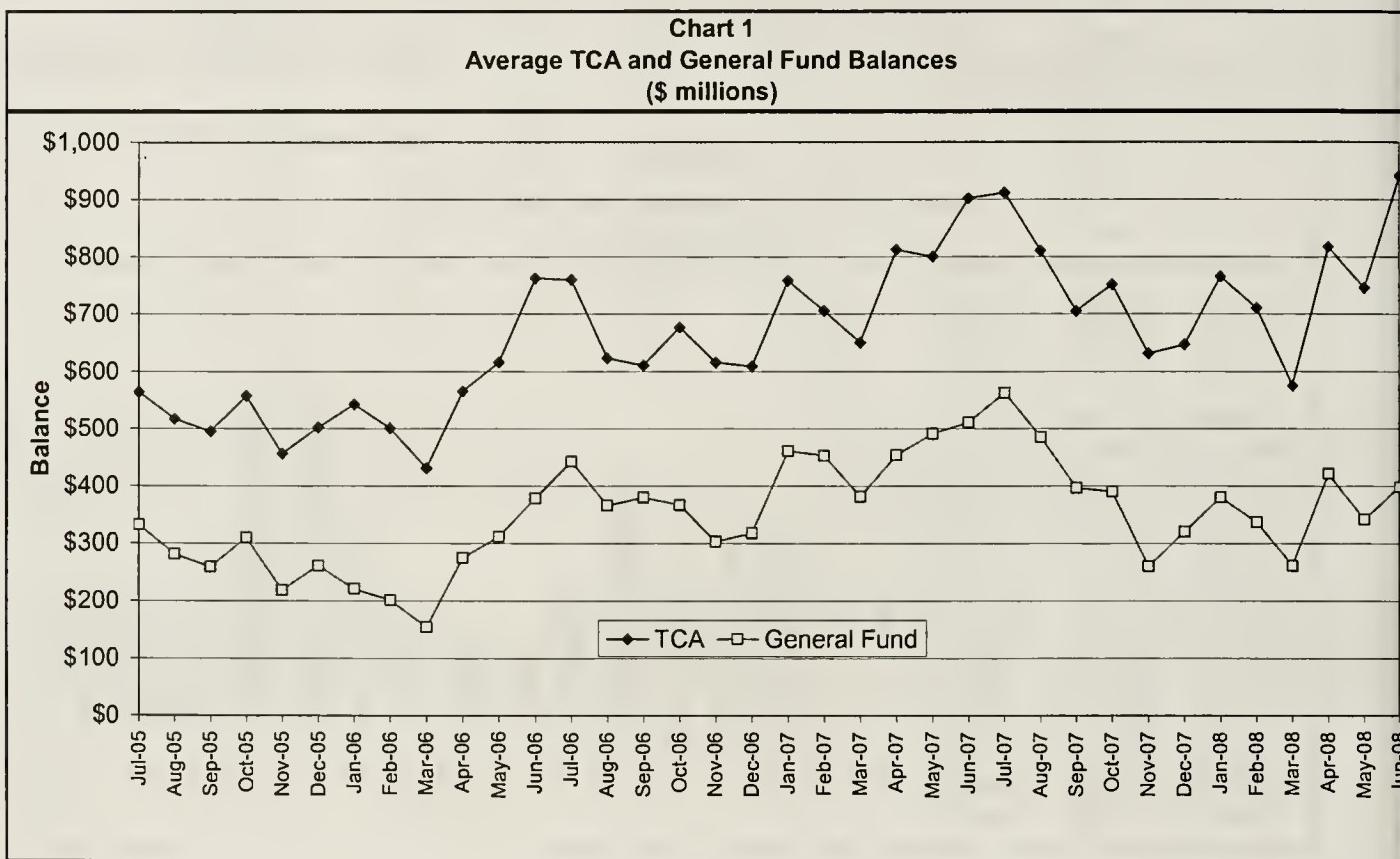
- Short term and medium term interest rates have been very volatile in recent months, and continued variation could affect TCA revenues.
- The average fund balance in FY 2007 and FY 2008 were much higher than anticipated. If the average balance differs significantly, then the actual revenue may also differ for the estimate. If total state revenue is lower than expected, then the TCA balance will likely be lower than anticipated in this estimate.
- If the revenues or expenditures for the state in the future are significantly different from projections, then the balance could be different than estimated.

## Forecast Methodology

There are two main steps in calculating TCA earnings:

**Step 1:** Determine the average balance. The average general fund balance is projected to fall from FY 2009 through FY 2011 using executive budget recommendations of ending fund balance. The portion of the total that is attributable to the general fund has remained relatively stable with a large spike in FY 2007 due to larger than expected revenues.

Table 2 shows the monthly balance for TCA balance and the average general fund balance from the beginning of FY 2006 to the end of FY 2008.



Although there are many funds contributing to the fund, the general fund is the primary fund in the account.

Table 2 shows the annual average balance of the general fund, the average TCA balance, and the general fund percentage of the total.

**Table 2**  
**TCA and General Fund Balances**  
**( $\$$  millions)**

Fiscal Year	TCA	General Fund	General Fund %
A 2006	\$542.42	\$266.81	49.19%
A 2007	\$710.10	\$410.72	57.84%
A 2008	\$750.83	\$379.71	50.57%
<b>F 2009</b>	<b>\$750.01</b>	<b>\$394.01</b>	<b>52.53%</b>
<b>F 2010</b>	<b>\$670.21</b>	<b>\$352.08</b>	<b>52.53%</b>
<b>F 2011</b>	<b>\$536.96</b>	<b>\$282.08</b>	<b>52.53%</b>

**Step 2:** Determine the appropriate rate of return and calculate the income. TCA balances are invested in overnight repurchase agreements, the short-term investment pool (STIP), and medium-term bonds. Table 3 shows the average balance, rate of return, and income for these investments from FY 2003 to FY 2008, and forecasted values for FY 2009 through FY 2011.

**Table 3**  
**TCA Rates of Return by Investment Type**  
**( $\$$  millions)**

Cash			STIP		
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance
A 2003	\$116.37	X 1.55%	= \$1.80	A 2003	\$99.46
A 2004	\$82.86	X 1.26%	= \$1.05	A 2004	\$103.50
A 2005	\$23.44	X 2.11%	= \$0.50	A 2005	\$186.46
A 2006	\$19.73	X 4.46%	= \$0.88	A 2006	\$279.54
A 2007	\$20.70	X 4.56%	= \$0.94	A 2007	\$530.58
A 2008	\$23.66	X 3.97%	= \$0.94	A 2008	\$591.84
<b>F 2009</b>	<b>\$23.66</b>	<b>X 0.97%</b>	<b>= \$0.23</b>	<b>F 2009</b>	<b>\$591.03</b>
<b>F 2010</b>	<b>\$23.66</b>	<b>X 0.62%</b>	<b>= \$0.15</b>	<b>F 2010</b>	<b>\$511.23</b>
<b>F 2011</b>	<b>\$23.66</b>	<b>X 2.31%</b>	<b>= \$0.55</b>	<b>F 2011</b>	<b>\$377.98</b>
<u>Medium Term Bonds</u>			<u>Total</u>		
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance
A 2003	\$58.10	X 5.39%	= \$3.13	A 2003	\$273.93
A 2004	\$125.12	X 3.52%	= \$4.41	A 2004	\$311.48
A 2005	\$209.44	X 2.77%	= \$5.79	A 2005	\$419.35
A 2006	\$243.15	X 3.00%	= \$7.29	A 2006	\$542.42
A 2007	\$158.82	X 3.90%	= \$6.20	A 2007	\$710.10
A 2008	\$135.32	X 5.12%	= \$6.92	A 2008	\$750.83
<b>F 2009</b>	<b>\$135.32</b>	<b>X 3.81%</b>	<b>= \$5.15</b>	<b>F 2009</b>	<b>\$750.01</b>
<b>F 2010</b>	<b>\$135.32</b>	<b>X 1.91%</b>	<b>= \$2.58</b>	<b>F 2010</b>	<b>\$670.21</b>
<b>F 2011</b>	<b>\$135.32</b>	<b>X 2.25%</b>	<b>= \$3.04</b>	<b>F 2011</b>	<b>\$536.96</b>

The increase in overall fund balance from FY 2003 to FY 2008 has been most perceptible in the amount invested in STIP. As the total fund balance decreases the portion invested in STIP will decline through FY 2011, and the non-STIP portions will remain relatively constant.

The STIP rate of return was calculated in the Interest Rate Introduction section. The interest rate on cash invested in overnight repurchase agreements is generally the federal funds target rate. Global Insight forecasts the federal funds rate which is used as the cash investment interest rate.

The medium term interest rates are calculated by first determining the maturity dates of the bonds then assume new investment will earn a rate of return equal to what Global Insight has forecasted for investment of similar risk and maturity and calculate an overall rate of return.

Step 3: Use the calculated general fund TCA earning and deduct administration expenses. Table 4 shows the administration expenses from FY 2003 to FY 2008 and estimated values for FY 2009 through FY 2010.

**Table 4**  
**Net TCA Income**  
**(\$ millions)**

Fiscal Year	Gross Income	Administrative Expense	Net Income
A 2003	\$6.42	+ (\$0.06)	= \$6.37
A 2004	\$6.45	+ (\$0.05)	= \$6.39
A 2005	\$10.10	+ (\$0.05)	= \$10.05
A 2006	\$18.69	+ (\$0.06)	= \$18.63
A 2007	\$34.00	+ (\$0.05)	= \$33.95
A 2008	\$30.84	+ (\$0.06)	= \$30.78
F 2009	\$15.14	+ (\$0.06)	= \$15.21
F 2010	\$7.63	+ (\$0.06)	= \$7.69
F 2011	\$13.74	+ (\$0.06)	= \$13.81

Expenses are projected to remain at their FY 2008 levels.

## Data Sources

Fiscal year end revenues are from SABHRS. The State Street Bank and BOI provide monthly reports on TCA investment earnings and balances. Forecasted rates of return are from Global Insight's U.S. Economic Outlook. General fund balances were provided by the Department of Administration.



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## LIQUOR TAXES SECTION 6

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# Liquor Excise and License Tax

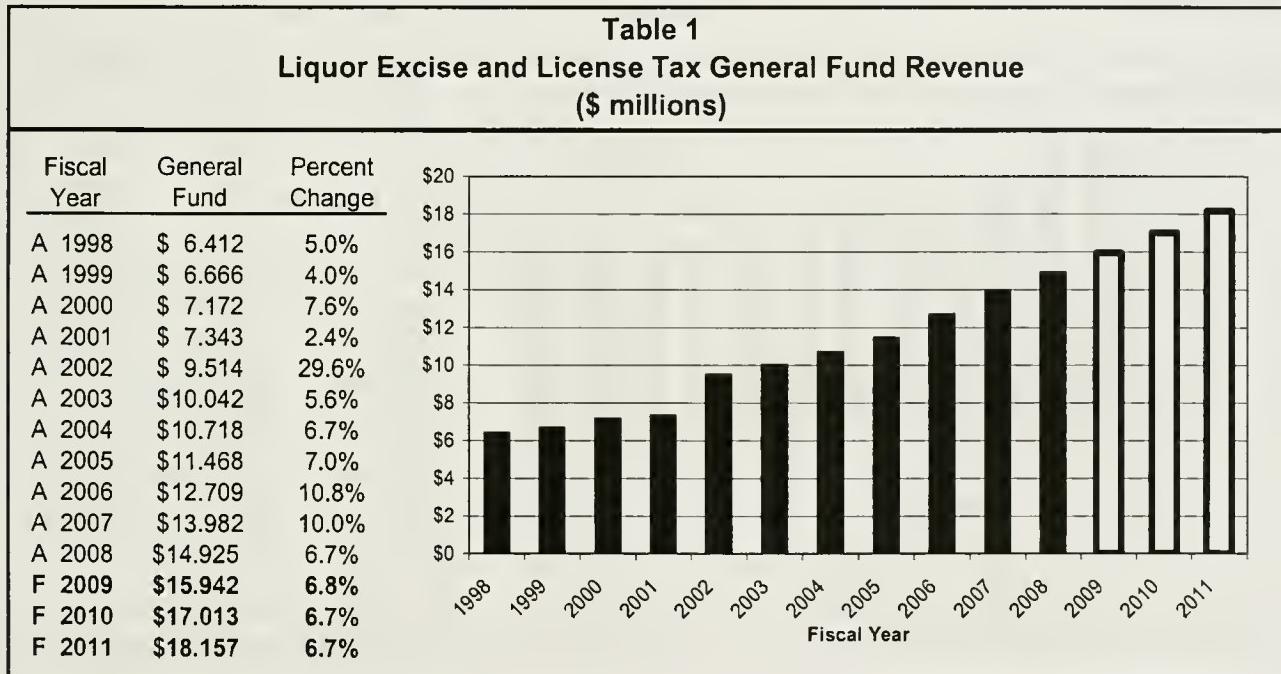
2011 Biennium

## Revenue Description

According to 16-1-401, MCA, and 16-1-404, MCA, the Department of Revenue is directed to collect an **excise** tax of 16% and a **license** tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, all Montana liquor is supplied by distillers that produce at least 200,000 proof gallons of alcohol annually.

Section 16-4-01, MCA states that 65.5% of the liquor **license** tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund alcohol and chemical dependency programs. Three Indian tribes have an agreement with the state, and a portion of the remaining revenue from both the excise and license tax is shared with tribes that have a revenue sharing agreement with the state. The remaining revenue is deposited to the general fund.

**Table 1**  
**Liquor Excise and License Tax General Fund Revenue**  
(\$ millions)



HB 124 (2001 Session) changed the distribution of the liquor license tax. Prior to FY 2002, 30% of the liquor license tax was distributed to local governments. Beginning in FY 2002, 65.5% of liquor license tax revenue goes to DPHHS and 34.5% goes to the state general fund. This change explains the 29.6% growth in state general fund revenue in FY 2002 from this source.

## Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in four steps:

**Step 1:** Calculate gross sales. Liquor units sold experienced an average annual increase of 4.26% between 2000 and 2008.

**Step 2:** Calculate retail selling value. Cost per liquor unit sold experienced an average annual increase of 2.69% between 2000 and 2008.

**Step 3:** Calculate gross liquor excise and license tax collections.

- Liquor excise tax receipts for FY 2009 through FY 2011 are estimated by multiplying the pre-tax value of liquor sales by the liquor excise tax rate of 16%.
- Liquor license tax receipts for FY 2009 through FY 2011 are estimated by multiplying the pre-tax value of liquor sales by the liquor license tax rate of 10%.

**Step 4:** Calculate tribal portion of revenue.

- The Fort Peck, Fort Belknap, and Blackfeet Indian Reservations have a revenue sharing agreement with the state. The revenue sharing agreement distributes revenues to the tribes based on the per capita general fund revenue multiplied by the number of enrolled tribal members. Tribal revenue is estimated to be 1.86% of the non DPHHS liquor revenue for FY 2009 through FY 2011.

**Step 5:** Calculate liquor excise and license tax general fund revenue.

### Distributions

As shown in Table 2, liquor license tax is first distributed to DPHHS, then revenue from the liquor excise tax is added. Finally, tribal revenues are taken out to obtain general fund revenue.

**Table 2**  
**Calculation and Distribution of Liquor Excise**  
**and License Tax Revenue**

Description	Projected FY 2009	Projected FY 2010	Projected FY 2011
Liquor License Tax	\$8,351,125	\$8,912,656	\$9,511,944
Less DPHHS Share(65.5%)	(\$5,469,987)	(\$5,837,789)	(\$6,230,323)
Liquor Excise Tax	\$2,881,138	\$3,074,866	\$3,281,621
	\$13,361,800	\$14,260,249	\$15,219,110
Non DPHHS Liquor Tax Revenue	\$16,242,938	\$17,335,115	\$18,500,731
Less Tribal Share(1.86%)	(\$301,403)	(\$321,669)	(\$343,298)
<b>General Fund Revenue</b>	<b>\$15,941,535</b>	<b>\$17,013,446</b>	<b>\$18,157,432</b>

### Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS.

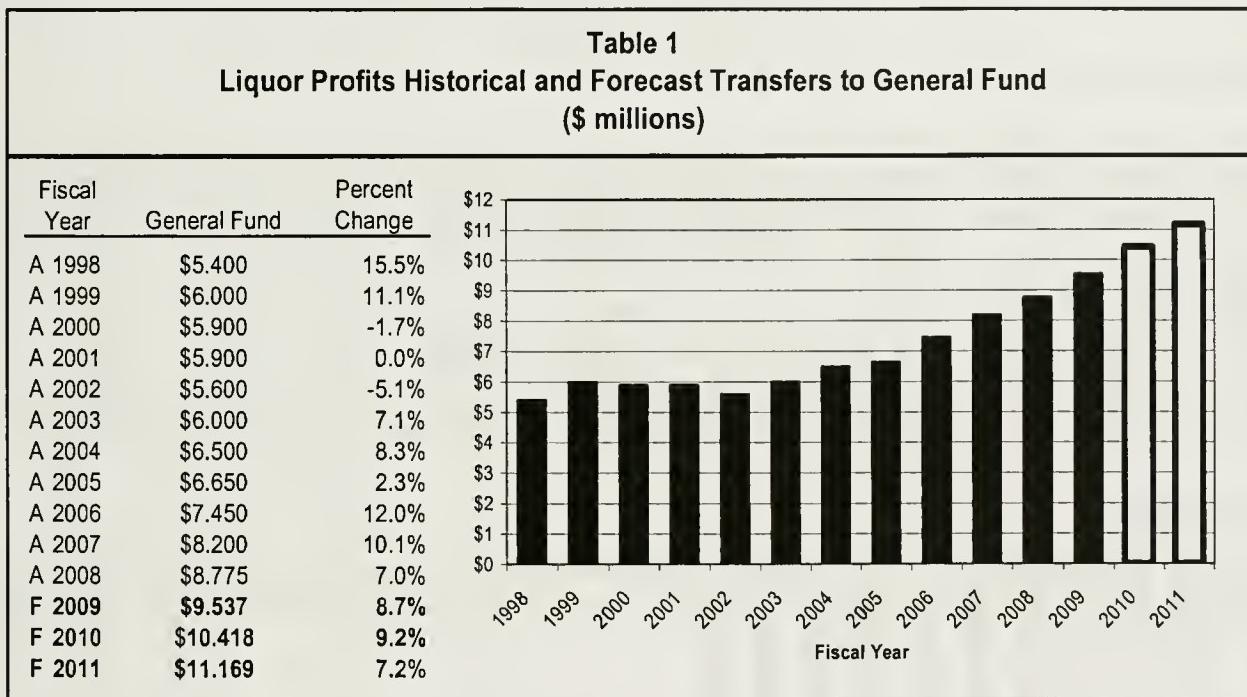
# Liquor Profits

2011 Biennium

## Revenue Description

The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers (Title 16, Chapters 1 through 6, MCA). Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.

**Table 1**  
**Liquor Profits Historical and Forecast Transfers to General Fund**  
**(\$ millions)**



The relatively small increase of less than 5% in FY 2008 and FY 2011 is due to the renegotiation of liquor store owner's commission rates in 2008 and FY 2011. Increasing the commission rates will reduce the state liquor profits revenue transferred to the general fund.

## Forecast Methodology

Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting *Liquor Excise and License Tax General Fund Revenue*. Table 2 summarizes the calculations of commissions, discounts, operating expenses, and profits.

Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 Session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The new SB 348 rates and new negotiated commission rates increase went into effect in FY 2008. In FY 2008, the commission rate increased to 9.40% (from 9.15%) for FY 2008 through FY 2010. Commission rates will be negotiated again in FY 2011.

## Distributions

Table 2 shows liquor profit calculations for FY 2009 through FY 2011. Gross sales are added to a small amount of other revenue which is forecast to remain constant at \$0.583 million, the actual level for FY 2008. The profits are then adjusted for the changes to the net assets of the liquor control division, and the remainder is transferred to the general fund. The change in net assets is forecasted to be \$0.042 million for FY 2009 through FY 2011. This represents the average change in net assets from FY 2005 through FY 2008. The smaller increase from FY 2010 to FY 2011 is due to the expected increase in the liquor store operator's commission rates, which will reduce liquor profit revenue.

**Table 2**  
**Distribution of Forecast Liquor Profits**  
**( $\$$  millions)**

Fiscal Year	Gross Sales	Other Revenue	Comissions	Discounts	Cost of Goods Sold	Liquor Taxes	Operating Expenses	Profit	Changes in Net Assets	Transfer to General Fund
A 2005	\$75.687	+ \$0.552	- \$6.913	- \$2.249	- \$42.693	- \$15.616	- \$2.105	► \$6.662	- \$0.012	= \$6.650
A 2006	\$83.916	+ \$0.475	- \$7.683	- \$2.464	- \$47.307	- \$17.310	- \$2.167	► \$7.461	- \$0.011	= \$7.450
A 2007	\$92.301	+ \$0.487	- \$8.450	- \$2.681	- \$52.142	- \$19.039	- \$2.143	► \$8.333	- \$0.133	= \$8.200
A 2008	\$98.595	+ \$0.583	- \$9.266	- \$2.848	- \$55.688	- \$20.333	- \$2.256	► \$8.786	- \$0.011	= \$8.775
F 2009	\$106.882	+ \$0.583	- \$10.047	- \$3.127	- \$60.368	- \$22.042	- \$2.302	► \$9.578	- \$0.042	= \$9.537
F 2010	\$115.662	+ \$0.583	- \$10.872	- \$3.384	- \$65.328	- \$23.853	- \$2.349	► \$10.460	- \$0.042	= \$10.418
F 2011	\$123.222	+ \$0.583	- \$11.583	- \$3.605	- \$69.598	- \$25.412	- \$2.397	► \$11.211	- \$0.042	= \$11.169

## Data Sources

Gross liquor sales data and other related data for FY 2009 through FY 2011 comes from the Liquor Excise and License Tax write-up and the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS.

# Beer Tax

2011 Biennium

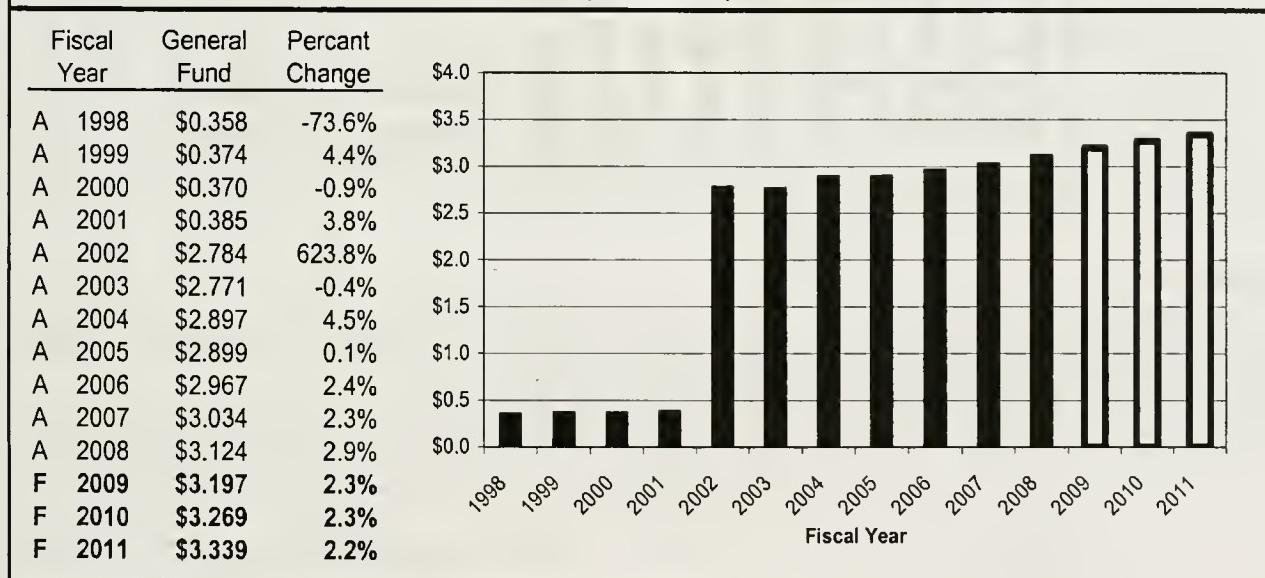
## Revenue Description

According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rate:

<u>Barrels Produced by a Brewer</u>	<u>Tax Rate Per Barrel</u>
Less than or equal to 5,000	\$1.30
5,001 to 10,000	\$2.30
10,001 to 20,000	\$3.30
Greater than 20,000	\$4.30

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2%) is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

**Table 1**  
**Beer Tax General Fund Revenue**  
**(\$ millions)**



HB 166 (1997 Special Session) decreased the general fund share of beer tax revenue from 41.86% to 11.63%, which caused a large drop in general fund revenue for FY 1998 through FY 2001. The significant increase in general fund beer tax revenue in FY 2002 is due to HB 124 (2001 Session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

## Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

**Step 1:** The per capita consumption of beer is calculated. Per capita beer consumption experienced an average annual increase of 0.91% between 2000 and 2008.

**Step 2:** Total revenue is projected by multiplying per capita consumption by the total Montana population.

- Montana population over age 20 experience an average annual increase of 1.36% between 2000 and 2008.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

**Step 3:** Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements.

Tribal payments averaged 1.95% of the non-DPHHS tax allocation from FY 2003 through FY 2008 and are estimated to remain constant at 1.95% of the non-DPHHS allocation for FY 2009 through FY 2011.

## Distributions

Table 2 shows the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then subtracted to obtain estimated total beer tax revenue for the general fund.

Table 2 Calculation and Distribution of Beer Tax Revenue (\$ millions)			
Description	FY 2009	FY 2010	FY 2011
Total Revenue	\$4.248	\$4.344	\$4.437
Less DPHHS Share(23.26%)	(\$0.988)	(\$1.010)	(\$1.032)
General Fund and Tribes' Share	\$3.260	\$3.333	\$3.405
Less Tribes' Share (1.95%)	(\$0.063)	(\$0.065)	(\$0.066)
<b>General Fund</b>	<b>\$3.197</b>	<b>\$3.269</b>	<b>\$3.339</b>

## Data Sources

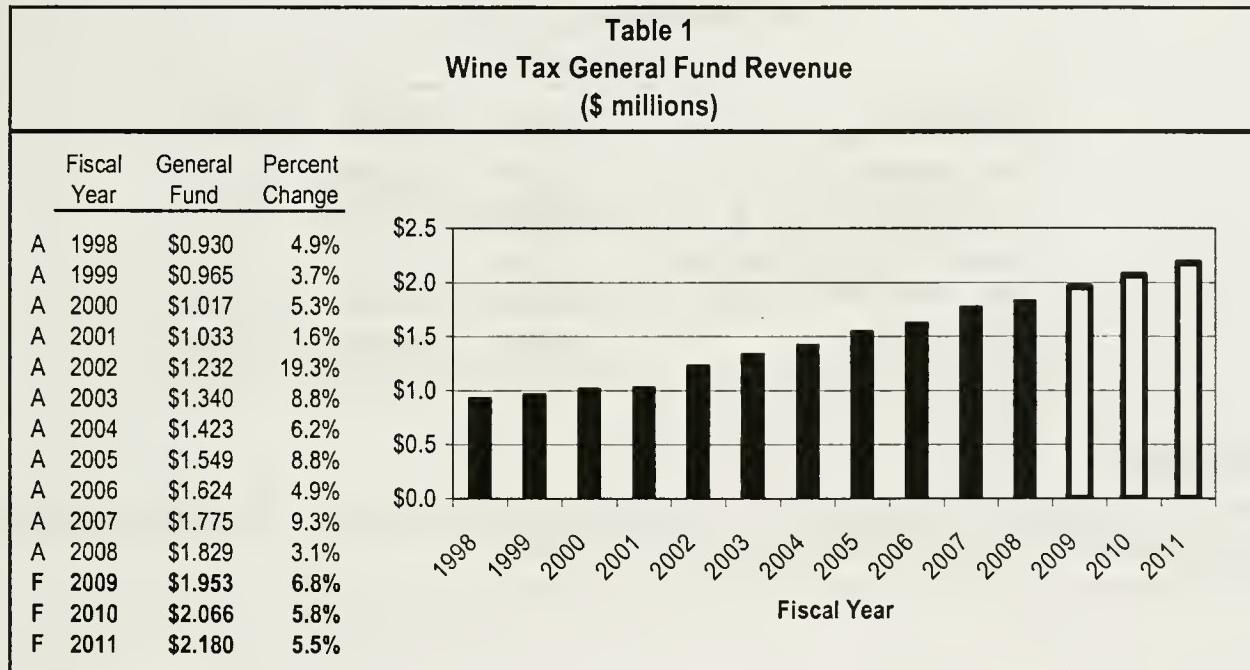
SABHRS Date Mine provided historical beer tax revenue and allocation information. *Global Insight* Research Service provided historical and projected Montana population data, July 2008.

## Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to Section 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS). Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

**Table 1**  
**Wine Tax General Fund Revenue**  
(\$ millions)



FY 2002 wine tax revenue increased 19.27% due to HB 124 (2001 Session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast projects the per capita consumption of wine in Montana will grow at a rate of 0.664 liters per person between FY 2009 and FY 2011. This growth is the result of a statistical regression analyzing the growth in per capita wine consumption from FY 2002 through FY 2007.

## Forecast Methodology and Significant Factors

The general fund share of the wine tax is prepared in three steps:

**Step 1:** Estimate liters of per capita wine consumption for FY 2009 through FY 2011 using per capita consumption from FY 2002 through FY 2008.

- Per capita consumption (average annual increase of 4.57% between 2002 and 2008)

**Step 2:** Multiply the estimates of per capita consumption by population and the tax rate (\$0.27/liter) to obtain estimates of total tax revenue through FY 2011.

- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old.
- Montana population over age 20 (average annual increase of 1.23% between 2002 and 2008)

**Step 3:** Determine the wine tax allocation to the general fund.

## Distributions

Table 2 shows the estimated revenue distribution for FY 2008 through FY 2011. Of the total revenue, 31% is first distributed to the DPHHS. The tribe revenue allocation payment (1.87%) is then extracted from the remaining revenue for FY 2009 through FY 2011. All revenue which remains after DPHHS and tribe payments have been subtracted is deposited to the general fund.

**Table 2**  
**Wine Tax Revenue Allocation**  
**FY 2009 through FY 2011**  
**(\$ millions)**

Description	FY 2009	FY 2010	FY 2011
Total Revenue	\$2.885	\$3.052	\$3.219
Less DPHHS Share (31%)	-\$0.894	-\$0.946	-\$0.998
General Fund and Tribes' Share	\$1.991	\$2.106	\$2.221
Less Tribes' Share (1.87%)	-\$0.037	-\$0.039	-\$0.042
<b>General Fund</b>	<b>\$1.953</b>	<b>\$2.066</b>	<b>\$2.180</b>

## Data Sources

SABHRS Date Mine provided historical wine tax revenue and allocation information. *Global Insight* Research Service provided historical and projected Montana population data, July 2008.



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## TOBACCO TAXES SECTION 7

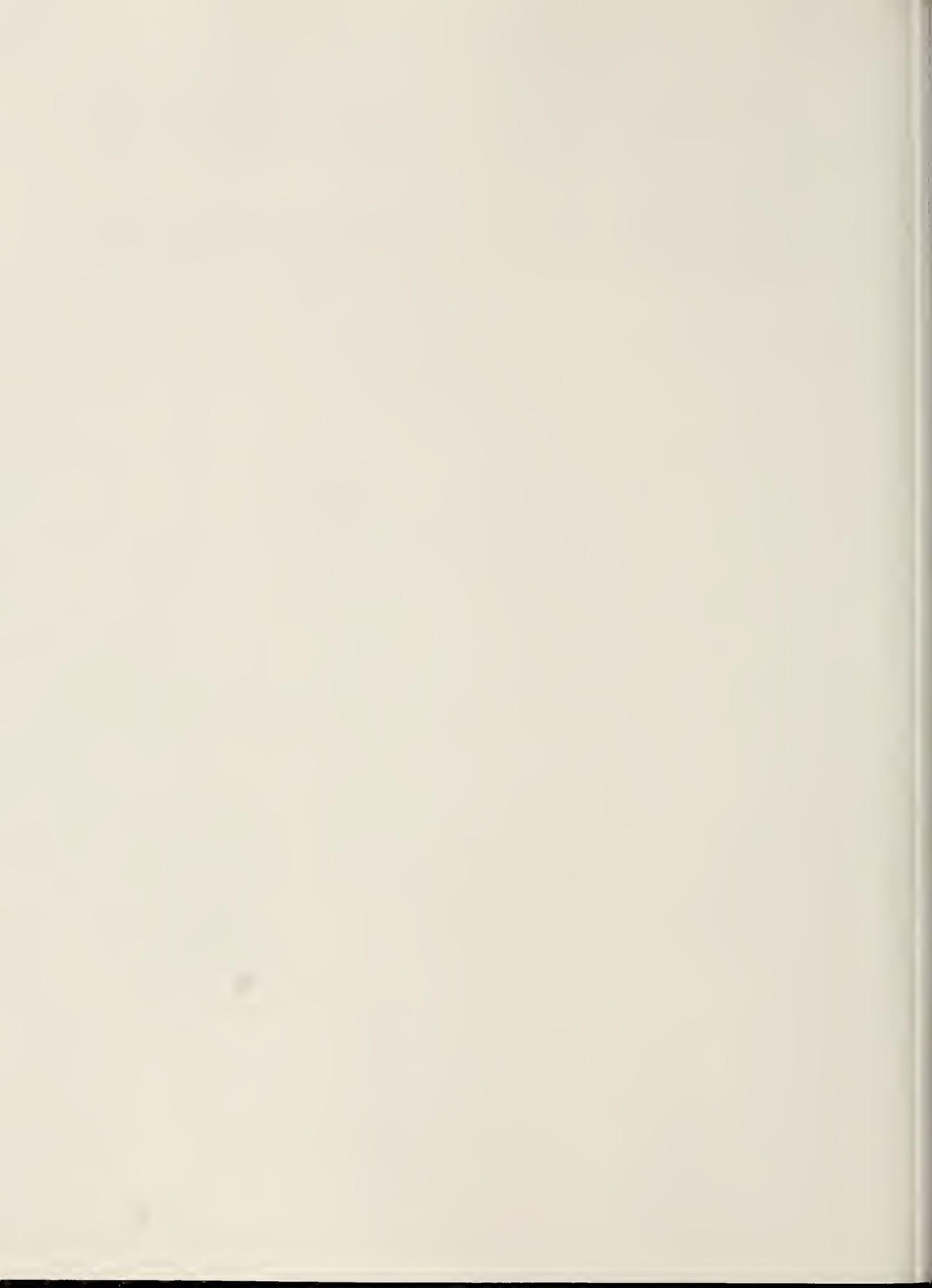
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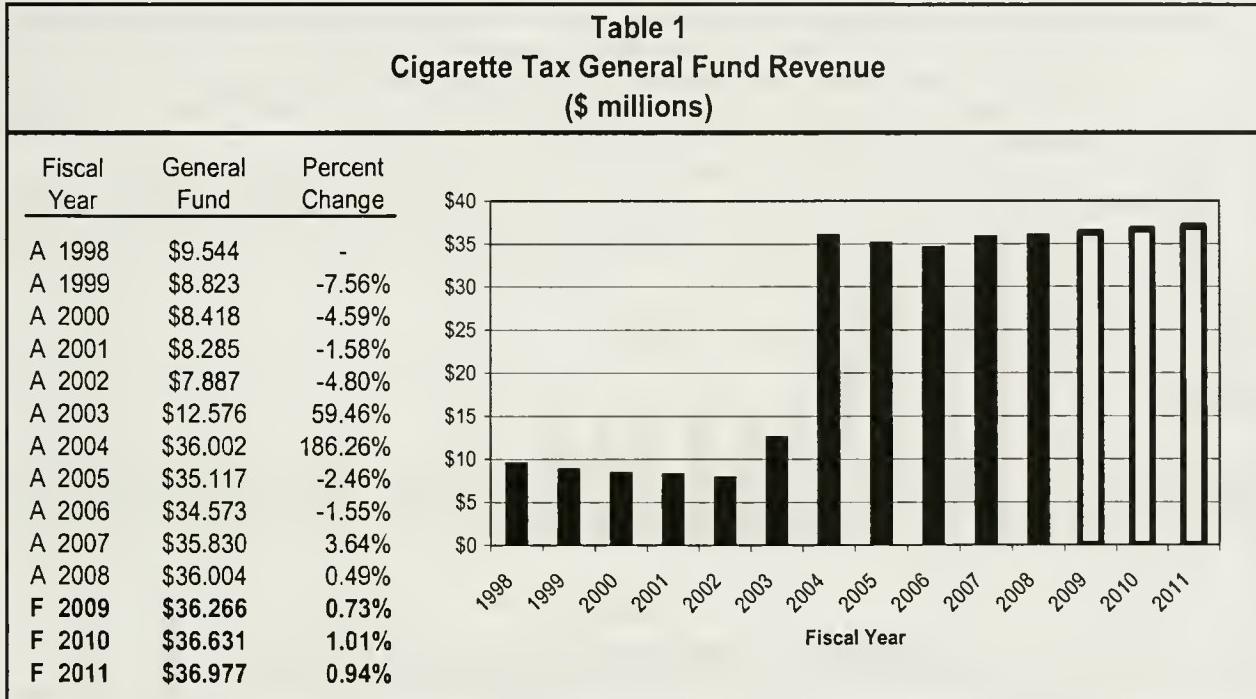
# Cigarette Tax

2011 Biennium

## Revenue Description

According to 16-11-111, MCA, a specific tax of \$1.70 is imposed on each pack of 20 cigarettes. If a pack contains more than twenty cigarettes, the tax is pro-rated by 1/20<sup>th</sup> of the \$1.70 tax for each cigarette exceeding 20 cigarettes. Currently, revenue generated from the cigarette tax is distributed as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiative account; 2.6% to the long-range building account; and the greater of 8.3% or \$2 million for operation of state veterans' nursing homes.

**Table 1**  
**Cigarette Tax General Fund Revenue**  
**(\$ millions)**



HB 166, (1997 Session) distributed cigarette tax revenue 73.04% to the general fund; 15.85% to the long-range building account; and 11.11% to the Department of Public Health and Human Services (DPHHS), as provided for in section 16-11-119, MCA. Beginning May 1, 2003, SB 407 (2003 Session) increased the tax on cigarettes from \$0.18 to \$0.70 per pack. SB 407 also changed the distribution of cigarette taxes, increasing the general fund portion to 87.40%, the long-range building account to 4.3%, and the DPHHS portion to the greater of 8.3% or \$2.0 million. The tax increase under SB 407 explains the FY 2003 and FY 2004 increase in cigarette tax revenue shown in Table 1.

Initiative 149 (I-149) further increased the tax on each pack of cigarettes to \$1.70 as of January 1, 2005. I-149 also changed the allocation of total collections as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiative account; 2.6% to the long-range building account; and the greater of 8.3% or \$2 million for operation of state veterans' nursing homes.

## Forecast Methodology

The general fund share of the cigarette tax is prepared in four steps:

### Step 1: Estimate taxable per capita cigarette consumption.

- Montana population over age 15 has experienced an average annual increase of 1.23% between 2002 and 2008.
- Per capita consumption has experienced an average annual increase of 0.90% between 2006 and 2008.

- Montana population age 15 and over was used for this forecast because, according to statistical analysis, this demographic tracked total cigarette consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.
- Although national trends indicate an overall downward trend for cigarette consumption, the rate at which consumption declines is also declining. According to the Center for Disease Control, the national prevalence of cigarette smoking has not declined significantly since 2004, which would imply a break in the previous seven year decline in cigarette smoking in the United States.

**Step 2:** Estimate cigarette tax revenue.

**Step 3:** Calculate tribal revenue sharing agreement payments.

- There are three types of arrangements for cigarette taxes with the seven Indian reservations in Montana:
  - The Northern Cheyenne has a tax-free quota agreement with the state.
  - The Flathead Reservation abides by the tax-free quota law with no specific agreement with the state.
  - The Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, and Crow Reservations have a revenue sharing agreement with the state.
- Tribes in categories 1 and 2 receive cigarettes tax free for the enrolled tribal members residing on the reservation. Under the revenue sharing agreements, the tribe and state cigarette tax rates are the same. The tribe's share of the tax revenue is 150% of the per capita cigarette tax collected for each of the tribes' enrolled members residing on the reservation.

**Step 4:** Calculate state cigarette tax revenue and allocation.

## Distributions

Table 2 shows the calculation and allocation of state cigarette tax revenue for FY 2009 through FY 2011. The tribes' revenue allocations are subtracted from the gross cigarette tax revenue to yield total state cigarette tax revenue. Revenue is allocated to each fund by multiplying state cigarette tax revenue by the fund's share.

Table 2 Calculation and Distribution of Cigarette Tax Revenue			
<u>Calculation</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Gross Cigarette Tax Revenue	\$84,470,433	\$85,322,531	\$86,128,176
Subtract Tribe Payments	(\$4,058,815)	(\$4,099,758)	(\$4,138,470)
Total State Cigarette Tax Revenue	<u>\$80,411,618</u>	<u>\$81,222,773</u>	<u>\$81,989,706</u>
<u>Allocation</u>			
General Fund (45.1%)	\$36,265,640	\$36,631,471	\$36,977,358
Long Range Building Fund (2.6%)	\$2,090,702	\$2,111,792	\$2,131,732
State Veterans' Nursing Homes (8.3%)	\$6,674,164	\$6,741,490	\$6,805,146
Health and Medicaid (44.0%)	\$35,381,112	\$35,738,020	\$36,075,471
Total State Cigarette Tax Revenue	<u>\$80,411,618</u>	<u>\$81,222,773</u>	<u>\$81,989,706</u>

## Data Sources

The general fund revenue data was obtained from SABRHS. Current tribal payments are provided by DOR Fiscal Year 2008 Revenue Sharing Agreement Quarterly Reports. Population data forecasts are provided by Global Insight (July, 2008).

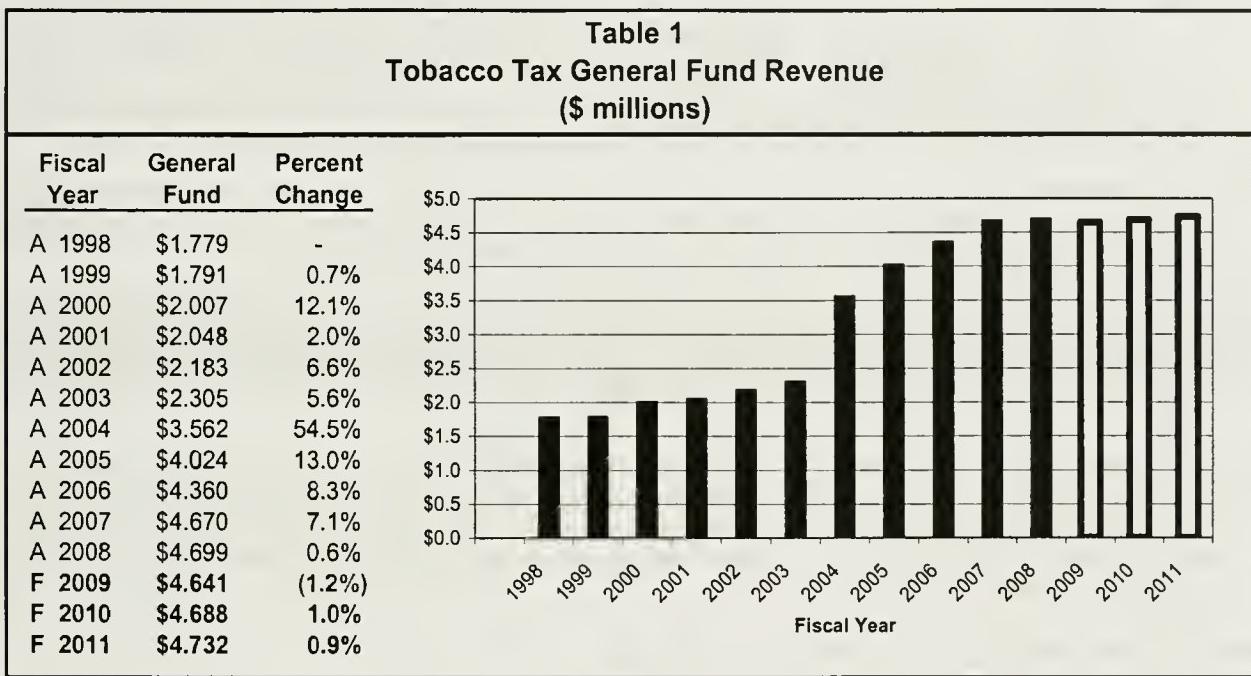
# Tobacco Products Tax

2011 Biennium

## Revenue Description

According to 16-11-111, MCA, the Department of Revenue (DOR) is directed to collect a tax of 85 cents per ounce of moist snuff and 50% of the wholesale price of all other tobacco products, excluding cigarettes. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. The general fund and the health and Medicaid initiative account each receive 50% of the tobacco products tax revenue after payments are made as per tribal revenue sharing agreements.

**Table 1**  
**Tobacco Tax General Fund Revenue**  
**( $\$$  millions)**



In FY 2000, there was a 12.08% increase in tobacco revenue due to an unexpected increase in gross tobacco sales coupled with a modest increase in state population, therefore effectively increasing per capita consumption and general fund revenue. In FY 2004 there was a 54.52% increase in tobacco revenue due to SB 407 (2003 session). On May 1, 2003, SB 407 changed the tax on moist snuff from 12.5% of the wholesale price to 35 cents per ounce, an effective increase of 7 cents per ounce. SB 407 also increased the tax on all other tobacco from 12.5% of the wholesale price to 25% of the wholesale price.

On January 1, 2005, Initiative 149 (I-149) changed the tax on moist snuff to 85 cents per ounce and increased the tax on all other tobacco to 50% of the wholesale price. This tax increase explains the increase in total tobacco tax revenue in FY 2005 and FY 2006. Revenue increased 7.10% in FY 2007 as a result of a larger proportion of refunds for unsalable tobacco product than usual being credited back to sellers for sales in FY 2006.

## Forecast Methodology

The tobacco tax revenue is comprised of two taxes: (1) the moist snuff tax of 85¢ per ounce; and (2) the other tobacco tax of 50% of the wholesale price.

The six steps in estimating tobacco tax revenues are:

**Step 1:** Estimate per capita tobacco consumption;

- Montana population over age 15 has experienced an average annual increase of 1.23% between 2002 and 2008.

- Moist snuff per capita consumption has experienced an increase of 5.30% from 2005 to 2008.
- Montana population age 15 and over was used for this forecast because, according to statistical analysis, this demographic tracked total tobacco consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

**Step 2:** Estimate projected gross tobacco tax revenue;

- **Moist Snuff**
  - Multiply the estimated per capita consumption of moist snuff by Montana's population over 15 years of age to determine total moist snuff consumption.
  - Multiply total moist snuff consumption by the moist snuff tax rate to determine gross moist snuff tax revenue.
- **Other Tobacco Products**
  - Multiply the estimated per capita consumption of other tobacco products by Montana's population over 15 years of age to determine total other tobacco product consumption.
  - Multiply total other tobacco product consumption by the other tobacco product tax rate to determine gross other tobacco product tax revenue.

**Step 3:** Calculate wholesaler discounts. The excise tax on tobacco products is imposed on retail consumers, but the tax is collected by wholesalers. In accordance with 16-11-112, MCA, wholesalers are allowed a discount equal to 1.5% of total tax collections to defray collection and administrative costs.

**Step 4:** Calculate refunds for unsalable product. Tobacco product sellers can obtain a refund credit for tobacco products that could not be sold due to defect. The average percentage of defective product credits of total collections in FY 2005 through FY 2008 (2.05%) is used to forecast refund credits for FY 2009 through FY 2011.

**Step 5:** Calculate tribes' revenue allocation. Five Indian reservations in Montana have a tobacco revenue sharing agreement with the state: Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, and Crow Reservations. Under the revenue sharing agreements, the tribe tobacco tax and the state tobacco tax are the same. The tribe's share of the tax revenue is 150% of the per capita state tobacco tax collected for each of the tribes' enrolled members residing on the reservation.

**Step 6:** Calculate state tobacco tax revenue and allocation.

## Distributions

Wholesaler discounts and refund credits are subtracted from total tobacco tax revenue and tribal allocation payments are subtracted from net revenue to determine total state other tobacco tax revenue. Fifty percent of the state tobacco tax revenue goes to the general fund and 50% goes to the health and Medicaid fund. Please see Table 2 on the following page.

**Table 2**  
**Calculation and Distribution of Tobacco Tax Revenue**

<b>Calculate Tobacco Tax Revenue</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Total Tobacco Tax Revenue	\$10,130,893	\$10,233,161	\$10,329,897
Subtract Wholesaler Discounts	(\$151,963)	(\$153,497)	(\$154,948)
Subtract Refund Credits	(\$207,318)	(\$209,411)	(\$211,390)
Net Revenue	\$9,771,611	\$9,870,253	\$9,963,558
Subtract Tribal Payments	(\$489,677)	(\$494,620)	(\$499,296)
<b>Total State Tobacco Tax Revenue</b>	<b>\$9,281,934</b>	<b>\$9,375,632</b>	<b>\$9,464,262</b>
<b>Allocate State Tobacco Tax Revenue</b>			
<b>Total to General Fund (50%)</b>	<b>\$4,640,967</b>	<b>\$4,687,816</b>	<b>\$4,732,131</b>
Total to Health and Medicaid (50%)	\$4,640,967	\$4,687,816	\$4,732,131
<b>Total State Tobacco Tax Revenue</b>	<b>\$9,281,934</b>	<b>\$9,375,632</b>	<b>\$9,464,262</b>

## Data Sources

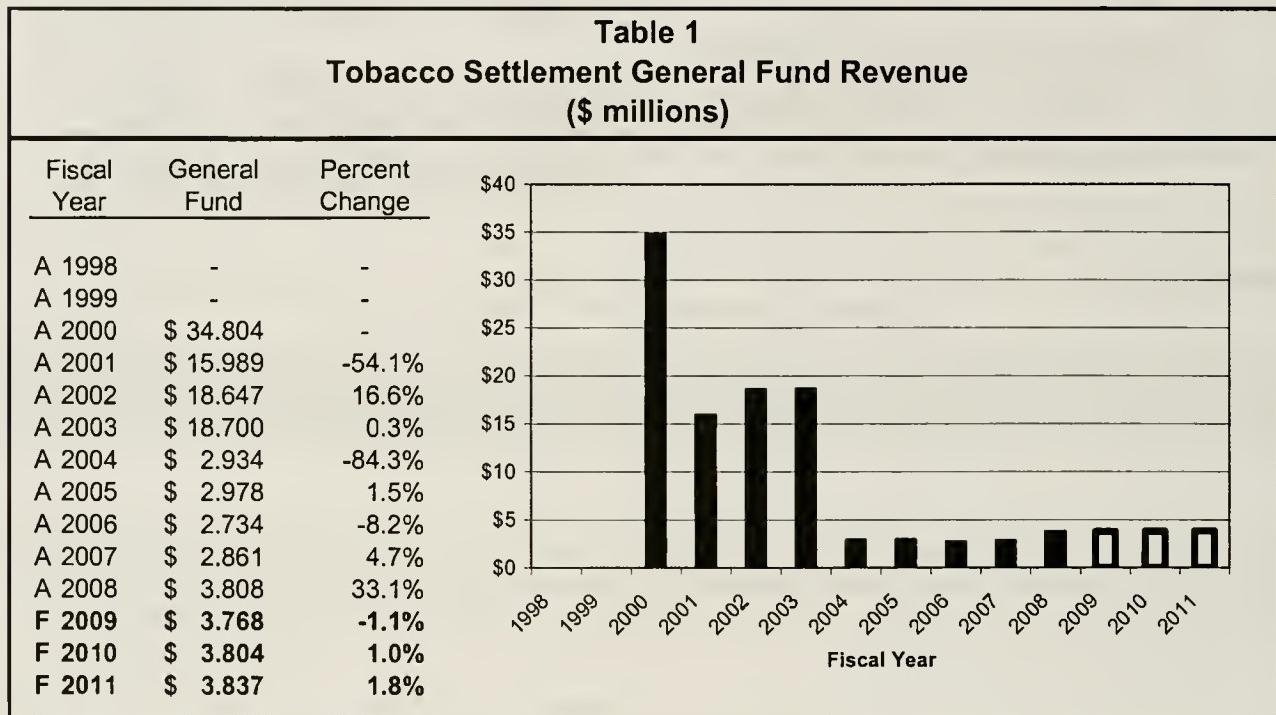
Table 1 general fund revenue data is from SABHRS. Moist snuff and other tobacco product collections, and current tribe revenue allocation payments are provided by DOR monthly total sales reports and quarterly revenue sharing agreement reports. Other data provided by DOR includes the amount of discounts and credits applied to distributors of other tobacco products. Population data is provided by Global Insight, Inc (July, 2008).

# Tobacco Settlement Agreement

2011 Biennium

## Revenue Description

In 1998, Montana, along with 45 other states, signed a settlement agreement with major tobacco companies. Pursuant to the agreement Montana will receive approximately \$832 million by the year 2025. Payments are made annually beginning in FY 2000. The schedule of payments provided for under the settlement agreement is subject to change depending on adjustment criteria specified in the agreement.



In FY 2008 the Base Payment paid to states increased from \$8 billion to \$9 billion. This accounts for the large percentage increase from FY 2007 to FY 2008. However, the forecast payments, when adjusted for inflation, are decreasing or flat because cigarette consumption per capita (nationwide) has slightly decreased. Further, additional adjustments to the annual payments have been made since FY 2005 to compensate for changes in market share among the participating and non-participating manufacturers. These market share adjustments are forecast to continue through FY 2011.

Two major arrangements in the allocation of the tobacco settlement revenue have existed since the first payment was received in FY 2000. First, in November 2000, Montana's electorate passed Constitutional Amendment 35. The amendment required no less than 40% of tobacco settlement revenue to be deposited in a trust fund, with the remaining money deposited in the state general fund. The trust fund was established to provide a permanent source of revenue to fund the costs associated with programs for tobacco disease prevention and healthcare benefits, services, or coverage. The amendment further stated that 90% of the interest income from the trust fund could be appropriated; with 10% of the interest income from the trust fund to be deposited in the trust fund on or after January 1, 2001. The principal of the trust fund and 10% of the interest income was to be deposited in the trust fund and remain forever inviolate unless appropriated by a vote of two-thirds of the members of each house of the Legislature.

Second, in the November 2002 election, Initiative 146 (I-146) was passed. I-146 required the tobacco settlement payments received after June 30, 2003 be deposited as follows: 32% in a state special revenue account for tobacco prevention; 17% in a state special revenue account for health insurance benefits; 40% in the trust fund; and 11% in the state general fund. Table 3 shows the estimated payment distributions through FY 2011.

## Risks

If Original Participating Manufacturer's (OPMs) and Subsequent Participating Manufacturer's (SPMs) lose market share to Non-Participating Manufacturer's (NPMs), OPMs and SPMs may be entitled to pay less. The NPM adjustment is conditional upon two factors: (1) whether there has been a loss in market share by participating manufacturers to NPMs; and (2) whether that loss is attributable to disadvantages resultant from the tobacco settlement.

A specific provision of the MSA, referred to as the safe harbor provision, is relevant to this adjustment. Under the safe harbor provision, a state can avoid a payment reduction due to the NPM adjustment if a qualifying statute is enacted and "diligently enforced". The qualifying statute provides for an amount to be paid into an escrow account for each cigarette sold by NPMs in the state that is equivalent to the amount that would have been paid had the NPMs participated in the settlement.

Currently, all participating states (including Montana) have enacted qualifying statutes under the safe harbor provision. Because every state enacted these statutes, NPM adjustments were set to zero in the past. However, with the increasing market loss to NPMs, the meaning of "diligent enforcement" is now in question. "Diligent enforcement" is not defined in the MSA. Consequently, there is uncertainty as to how, or who, will determine the meaning of "diligent enforcement". States contend the decision should be made in state court, tobacco companies would rather the decision be made in arbitration. "Diligent enforcement" likely includes some combination of legislation and enforcement actions. An independent auditor determined that, beginning in 2003, participating manufacturers started losing market share to NPMs. Pursuant to this finding, OPMs and SPMs can pay a portion of their tobacco settlement payments into a dispute account. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved.

There are numerous possible outcomes to the dispute over the NPM adjustment. The following is a short list of possible outcomes over this disputed money.

1. If it is found that the loss in market share for participating manufacturers was not due to disadvantages resulting from the tobacco settlement, then the monies withheld will likely be distributed to the states immediately.
2. If a settlement is reached between the states and the participating manufacturers, payments could be reduced by some amount, the safe harbor statute could be revised, or some combination of the two. The fiscal impacts of such a settlement are unknown because the terms of such a settlement are uncertain.
3. Litigation may extend beyond FY 2011. If this is the case, then OPMs and SPMs will continue to place the disputed money in the separate dispute account.
4. It may be found that the loss in market share is due to disadvantages as a result of the tobacco settlement and that every state did not "diligently enforce" their safe harbor statutes. This finding would mean that states would have to face an undetermined reduction to the settlement fund they receive.

Many possible outcomes exist and it is unknown at this time which scenarios are more likely. However, for purposes of this estimate, it is assumed that the dispute over the NPM adjustment will not be resolved prior to the FY 2011 payment, and that for FY 2009 through FY 2011 the participating manufacturers will withhold NPM adjustment amounts proportional to what OPMs and SPMs withheld in FY 2006 through FY 2008.

## Forecast Methodology

The Master Settlement Agreement (MSA) provides for complex methods and formulas to calculate annual payments made by the settling tobacco companies to each state. Several clauses in the tobacco settlement set forth the precise calculations for the adjustments to the payments due from the two categories of settling companies: (1) OPMs and (2) SPMs.

Seven major calculations are used to calculate the annual amount due to Montana from tobacco companies which are parties to the MSA. These calculations are summarized in Table 2 and include:

**Step 1:** The inflation adjustment;

**Step 2:** The volume adjustment to the base payment;

- The base payment increased from \$8 billion in 2007 to \$9 billion 2008.
- OPM shipment volume has decreased due to a decrease in overall cigarette consumption and a loss in market share to other manufacturers. OPM volume has decreased 34.3% between 1998 and 2007.

**Step 3:** The volume adjustment to the base operating income;

**Step 4:** Previously settled states reduction;

**Step 5:** SPM payments. Pursuant to the finding of an independent auditor, OPMs and SPMs can pay a portion of their tobacco settlement payments into a dispute account. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved.

**Step 6:** The NPM Adjustment;

The largest NPM, General Tobacco, signed the tobacco settlement agreement in August 2004 and became a SPM beginning in FY 2005. Along with making normal MSA payments, General Tobacco will also make payments on a separate ten-year schedule for prior obligations. The prior obligation payments are based on the amount they would have paid under the MSA, had General Tobacco participated since the agreement's inception in 1998. These additional payments to Montana are estimated to be \$79,363 in FY 2009, \$83,869 in FY 2010, and \$88,027 in FY 2011.

**Step 7:** Montana's share of the total payment.

**Table 2**  
**Summary Calculation of Tobacco Settlement Revenue**

Description	FY 2009	FY 2010	FY 2011
Base Payment	\$9,000,000,000	\$9,000,000,000	\$9,000,000,000
Plus:			
Inflation Adjustment	\$4,057,443,205	\$4,449,166,501	\$4,852,641,496
Net Volume Adjustment	(\$4,653,680,292)	(\$4,986,839,062)	(\$5,330,977,757)
Previously Settled States Reduction	<u>(\$981,859,594)</u>	<u>(\$987,630,142)</u>	<u>(\$993,453,249)</u>
<b>Adjusted OPM Base Payment</b>	<b>\$7,421,903,319</b>	<b>\$7,474,697,297</b>	<b>\$7,528,210,491</b>
<b>Adjusted SPM Base Payment</b>	<b>\$422,220,697</b>	<b>\$444,530,861</b>	<b>\$459,075,792</b>
Sub-total Adjusted Base Payment	\$7,844,124,016	\$7,919,228,159	\$7,987,286,283
Less (NPM) Adjustment/Withholding ( $\approx 10\%$ )	<u>(\$784,412,402)</u>	<u>(\$791,922,816)</u>	<u>(\$798,728,628)</u>
<b>Total Adjusted Base Payment</b>	<b>\$7,059,711,615</b>	<b>\$7,127,305,343</b>	<b>\$7,188,557,655</b>
Strategic Con. Of Adj. Base Pay ( $\approx 9.5667\%$ )	\$675,379,078	\$681,845,544	\$687,705,349
Remainder of Adj. Base Payment ( $\approx 90.4333\%$ )	<u>\$6,384,332,537</u>	<u>\$6,445,459,798</u>	<u>\$6,500,852,306</u>
<b>Total Adjusted Base Payment</b>	<b><u>\$7,059,711,615</u></b>	<b><u>\$7,127,305,343</u></b>	<b><u>\$7,188,557,655</u></b>
Strategic Contribution Share	\$675,379,078	\$681,845,544	\$687,705,349
Multiplied by MT Share of Strategic Contribution	0.010447501	0.010447501	0.010447501
<b>MT's Strategic Contribution Share</b>	<b>\$7,056,024</b>	<b>\$7,123,582</b>	<b>\$7,184,802</b>
Base Payment w/out Strategic Cont. Share	\$6,384,332,537	\$6,445,459,798	\$6,500,852,306
Multiplied by MT Share of Adj. Base Contribution	0.004247591	0.004247591	0.004247591
<b>MT's non-Strategic Adj. Base Pay. Share</b>	<b>\$27,118,033</b>	<b>\$27,377,677</b>	<b>\$27,612,962</b>
MT Share of Adjusted Base Payment	\$34,174,057	\$34,501,259	\$34,797,764
Plus Additional 'New' SPM Prior Obligation	\$79,363	\$83,869	\$88,027
<b>Total MT Payment</b>	<b><u>\$34,253,420</u></b>	<b><u>\$34,585,128</u></b>	<b><u>\$34,885,791</u></b>

## Distributions

Table 3 shows the calculation and distribution of Montana's share of the Tobacco Master Settlement Agreement for FY 2009 through FY 2011.

**Table 3**  
**Tobacco Settlement Payment Distributions**  
**FY 2009 Through FY 2011**

----- Fiscal Year 2009 -----			
<u>Payment</u>	<u>Fund</u>	<u>Distribution</u>	<u>Amount</u>
	General Fund	11%	\$3.768
<b>Forecast</b> <b>\$34.253</b>	Tobacco Trust Fund	40%	\$13.701
	Tobacco Prevention Account	32%	\$10.961
	Health Insurance Benefits Acc.	17%	\$5.823
	<b>Total</b>	<b>100%</b>	<b>\$34.253</b>

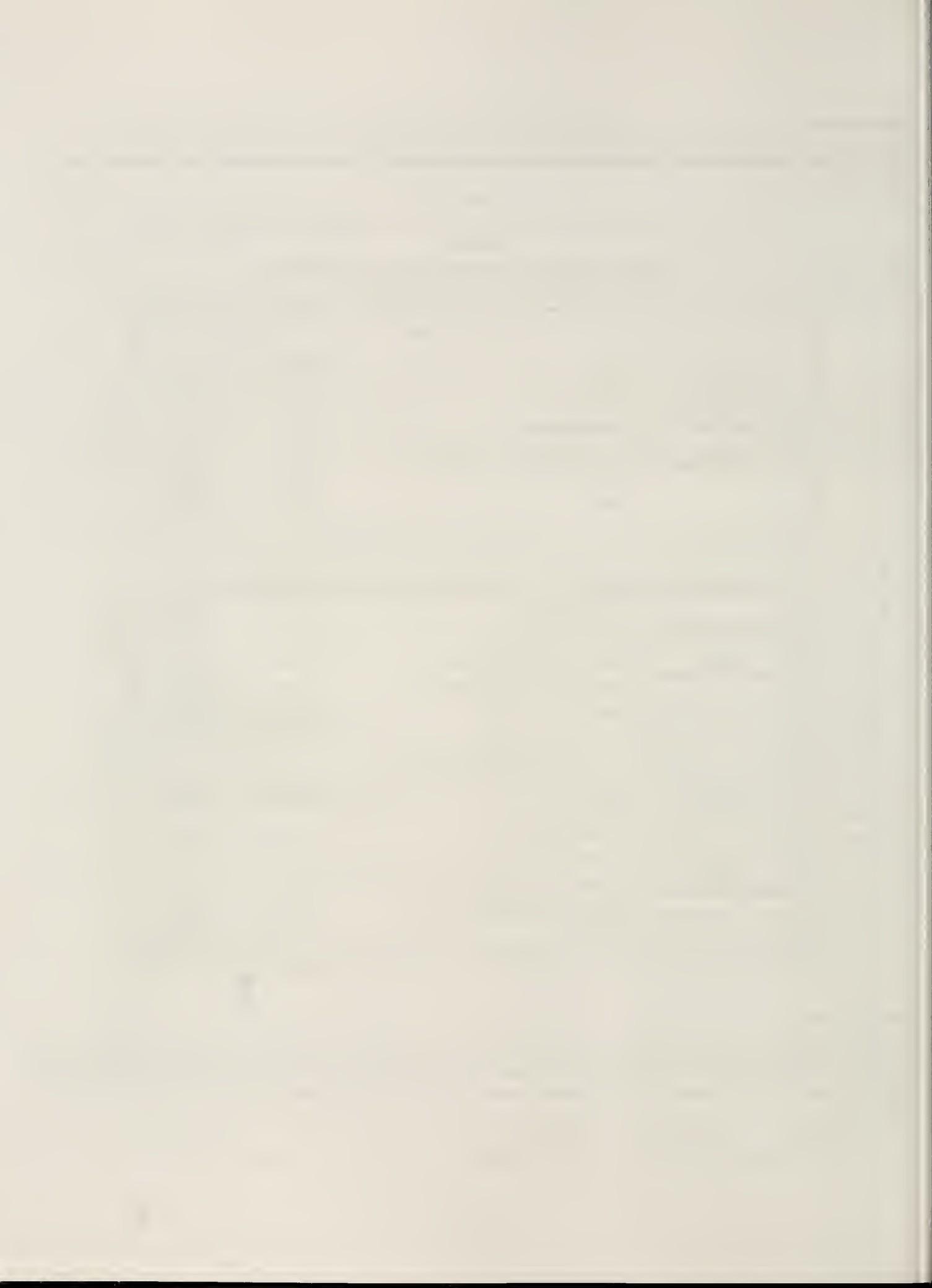
----- Fiscal Year 2010 -----			
<u>Payment</u>	<u>Fund</u>	<u>Distribution</u>	<u>Amount</u>
	General Fund	11%	\$3.804
<b>Forecast</b> <b>\$34.585</b>	Tobacco Trust Fund	40%	\$13.834
	Tobacco Prevention Account	32%	\$11.067
	Health Insurance Benefits Acc.	17%	\$5.879
	<b>Total</b>	<b>100%</b>	<b>\$34.585</b>

----- Fiscal Year 2011 -----			
<u>Payment</u>	<u>Fund</u>	<u>Distribution</u>	<u>Amount</u>
	General Fund	11%	\$3.837
<b>Forecast</b> <b>\$34.886</b>	Tobacco Trust Fund	40%	\$13.954
	Tobacco Prevention Account	32%	\$11.163
	Health Insurance Benefits Acc.	17%	\$5.931
	<b>Total</b>	<b>100%</b>	<b>\$34.886</b>

## Data Sources

Tobacco Settlement data was obtained from SABHRS Data Mine, Price Waterhouse Coopers Tobacco Master Litigation Master Settlement website, and the Tobacco Master Settlement Agreement (MSA). Historical inflation data was obtained from the Bureau of Labor Statistics, and forecasted inflation was derived from Global Insights CPI estimates.





GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## SALES TAXES SECTION 8

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# Retail Telecommunications Excise Tax

2011 Biennium

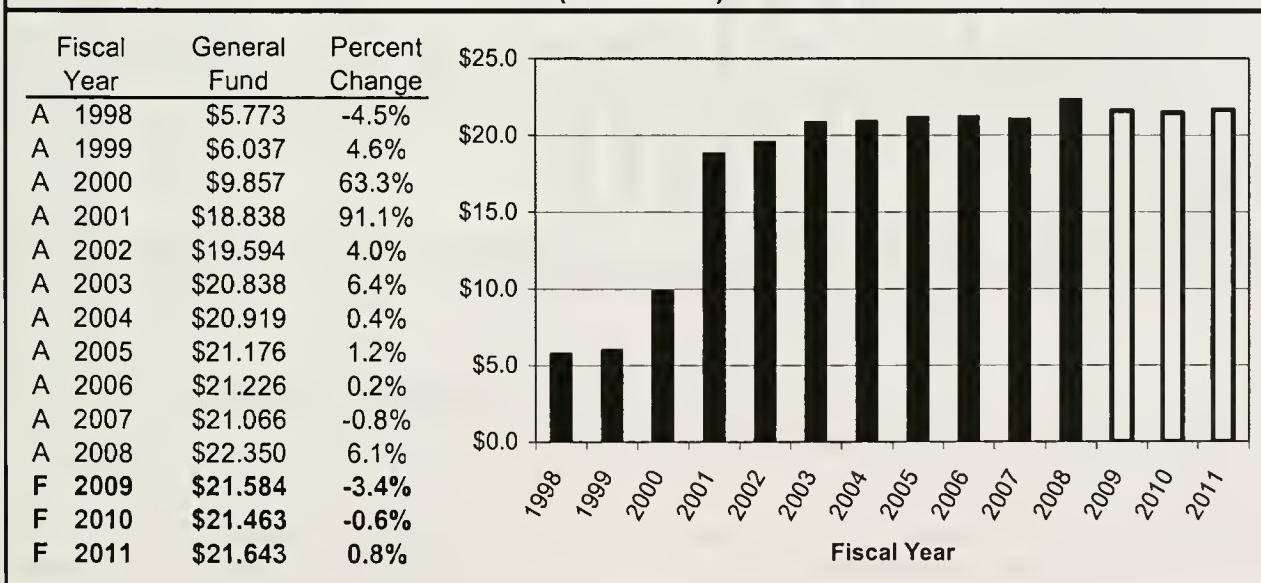
## Revenue Description

Montana imposes a 3.75% excise tax on retail telecommunications services as directed in 15-53-130, MCA. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates or terminates in the state and are billed to a customer with a Montana service address. Telecommunications service providers are required to collect the tax and make quarterly payments within 60 days after the end of each quarter. All revenue is allocated to the general fund pursuant to 15-53-156, MCA.

The telecommunications excise tax replaced the telephone company license tax on January 1, 2000 and was intended to replace revenue losses from lower property taxes on telephone company property. Before FY 2000, annual revenues averaged \$6 million. The large increases in FY 2000 and FY 2001 reflect the transition from the telephone company license tax to the retail telecommunications excise tax. The increase in FY 2008 revenue was driven primarily by extraordinary audit collections; for the forecast period, a decrease in revenue is expected due to lower audit collections.

Table 1 shows general fund revenue from retail telecommunications excise tax. The important thing to note is the stability of this tax; although audit collections cause small fluctuations in the overall revenue, it is otherwise quite stable and seemingly unaffected by outside economic indicators.

**Table 1**  
**Retail Telecommunications Excise Tax**  
**(\$ millions)**



## Forecast Methodology

Retail telecommunications excise tax revenue is forecast in three steps:

**Step 1:** Calculate the average annual growth rate of current year tax revenue. Since FY 2003, the growth of the telecommunications excise tax has slowed. Therefore, the average annual growth rate of 0.84% is calculated from FY 2004 to FY 2008. Apply this growth rate to forecast the excise tax revenue.

**Step 2:** Average the audit, and penalty and interest collections from FY 2003 to FY 2008; add the average to the forecast excise tax revenue.

**Step 3:** There is litigation in negotiation with the Public Services Commission that would lower the cost of a large telecommunication firm's services; this would result in a reduction of the firm's overall revenue by \$16.0 million per year, beginning the first quarter of 2009. It is assessed that if this settlement occurs, it would reduce tax revenue by \$0.3 million in FY 2009, \$0.6 million in FY 2010 and \$0.6 million in FY 2011. This adjustment is included in the forecast.

The Table 2 illustrates the steps listed above.

**Table 2**  
**Forecast Calculation**  
**(\\$ millions)**

Fiscal Year	Excise Tax	Audits	Settlement	General Fund
A 2003	\$20.294	+ \$0.544	=	\$20.838
A 2004	\$20.081	+ \$0.838	=	\$20.919
A 2005	\$21.173	+ \$0.003	=	\$21.176
A 2006	\$21.226	+ \$0.000*	=	\$21.226
A 2007	\$21.066	+ \$0.000*	=	\$21.066
A 2008	\$21.128	+ \$1.223	=	\$22.350
F 2009	\$21.305	+ \$0.578	- \$0.300	= \$21.584
F 2010	\$21.484	+ \$0.578	- \$0.600	= \$21.463
F 2011	\$21.665	+ \$0.578	- \$0.600	= \$21.643

\*Audit collections of \$0.166 million for FY 2006 and \$0.697 million for FY 2007 were accounted for in the following year's prior year revenue and therefore not included in the amount reported to the general fund. However, these figures were included in the audit average calculation.

## Data Sources

Retail telecommunications excise tax revenue data is from SABHRS Report MTGL109. Information regarding the possible settlement was obtained from the Public Service Commission.

# Institutional Reimbursement

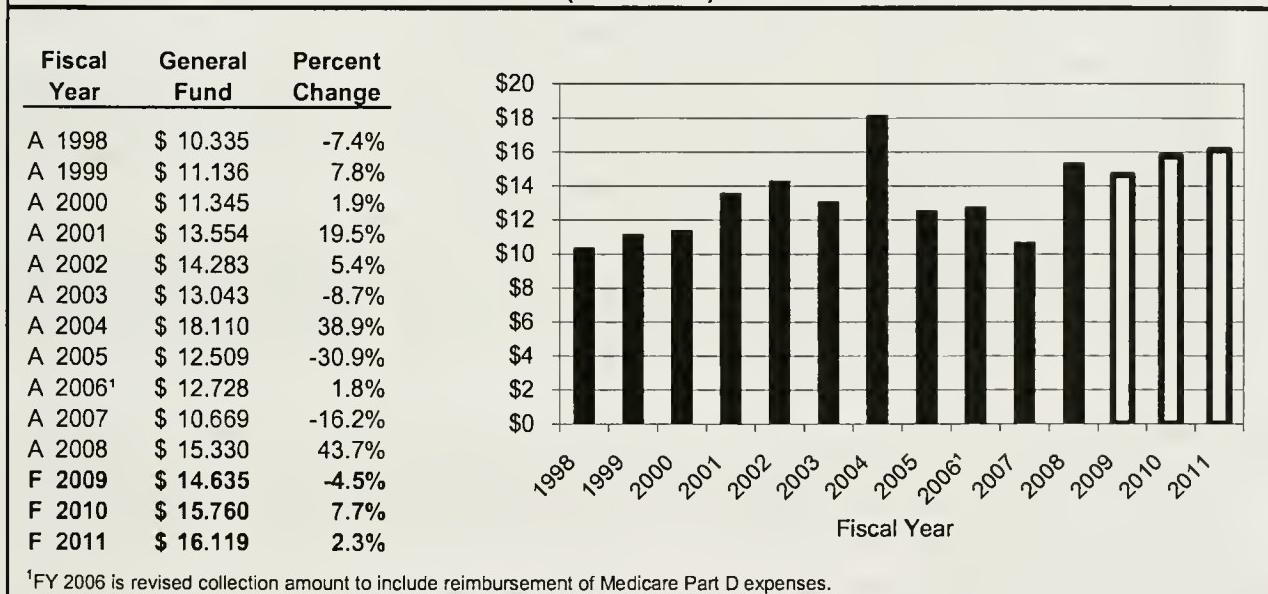
2011 Biennium

## Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operate facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay debt service obligations associated with the institutions' mortgages (90-7-220 and 221, MCA). After the debt service obligations are met, payments for care at the institutions are deposited in the general fund.

**Table 1**  
**Institutional Reimbursements - General Fund Revenue**  
(\$ millions)



<sup>1</sup>FY 2006 is revised collection amount to include reimbursement of Medicare Part D expenses.

There have been significant changes in both the infrastructure and operation of the institutional facilities. These changes have affected the way expenses were paid at each institution and have affected general fund reimbursement.

In FY 1997, a mental health managed care system was implemented for MSH and MMHNCC. This caused a large drop in institutional reimbursements to the general fund in FY 1997. The managed care contract was ultimately terminated in FY 2000, but the flow of funds remained the same.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH. Institutional reimbursement revenue is reduced by the amount of the mortgage payments.

The MSH became Medicare-certified. This allows MSH to bill Medicare for a greater portion of eligible residents' expenses than it was able to in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed, and the department was required to refund some payments it had received in FY 2004.

As part of a lawsuit settlement, DPHHS agreed to move some MDC residents to assisted-living facilities in their communities. Since these facilities are not state institutions, the state does not receive reimbursement for services at

these assisted-living facilities. Also a separate, secure unit has been established at MDC. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost allowance for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 now requires that they be deposited in the general fund.

## Forecast Methodology

At each institution, there are up to four sources of reimbursement for patients' costs: patients and their families; insurance; Medicare; and Medicaid. There are four steps to estimating general fund receipts:

**Step 1:** Estimating daily reimbursement rates for each type of reimbursement at each institution;

- The primary reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. Private and SSI reimbursement rates are based upon estimates provided by DPHHS.
- Insurance rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage.
- Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.
- Medicaid pays costs that residents cannot. Therefore, the Medicaid daily rate is equal to the full cost rate less the patient/family and SSI reimbursements per day. Medicaid is a joint federal-state program, and only the federal portion comes to the state as net reimbursement. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications and laboratory work. Historically, the variability in Medicaid payment rates can be attributed to, in part, changes in the Federal Medical Assistance percentage (FMAP) rates.

**Step 2:** Estimating the population and number of care days for which each institution will be reimbursed. DPHHS expects the number of residents at the MDC to increase slightly, the number of residents at MSH to decrease as a result of Goal 189, and the number of residents at the MMHNCC to be generally stable when comparing FY 2008 actual average daily population to FY 2009 through FY 2011 projected average daily population at each respective institution.

**Step 3:** Multiplying the reimbursement rates by the number of care days to obtain reimbursement revenue. Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years).

**Step 4:** Subtracting the institution's mortgage payments to derive the general fund revenue. General fund revenue is total reimbursements for MDC, MSH and MMHNCC minus debt service payments for MDC and MSH. Debt service payments are provided by DPHHS and are shown in Table 2.

## Distributions

Table 2 shows the calculation of forecast general fund revenue from institutional reimbursements in FY 2009 through FY 2011.

**Table 2**  
**Institutional Reimbursements to the General Fund**  
**( $\$$  millions)**

Fiscal Year	Reimbursements			Debt Service		General Fund
	MDC	MSH	MMHNCC	MDC	MSH	
F 2009	\$9.385	+	\$4.668	+	\$3.508	- \$1.017 - \$1.910 = \$14.635
F 2010	\$10.351	+	\$4.740	+	\$3.596	- \$1.017 - \$1.910 = \$15.760
F 2011	\$10.594	+	\$4.786	+	\$3.666	- \$1.017 - \$1.910 = \$16.119

#### Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days, as well as information regarding debt service for the facilities. FMAP percentages are based on OBPP estimates.

# Lodging Facility Taxes

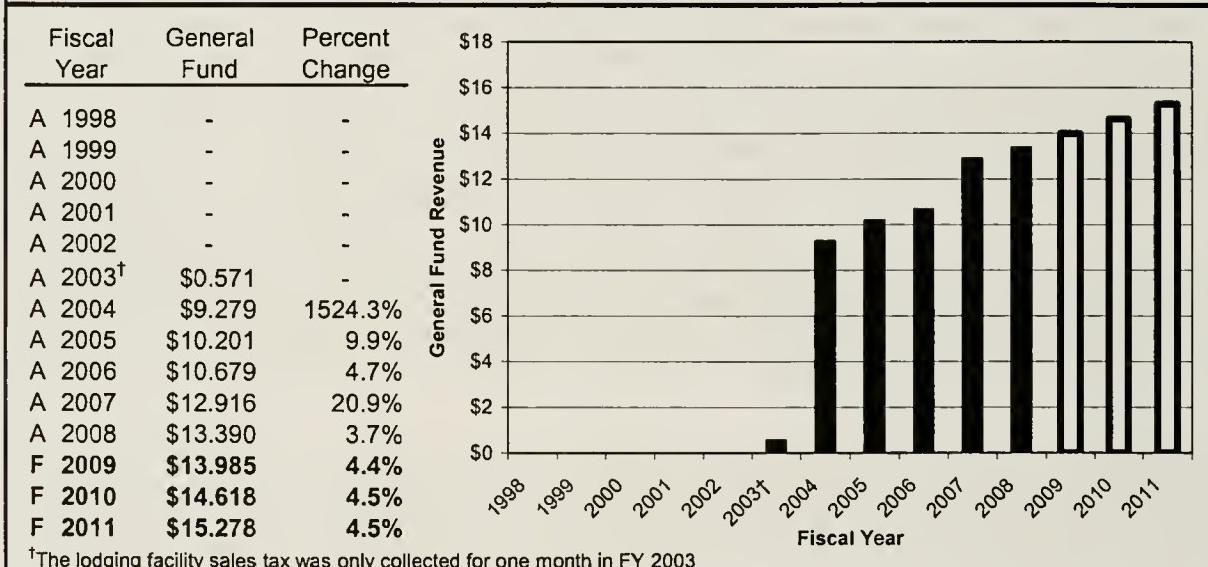
2011 Biennium

## Revenue Description

There is a 3% sales tax on all charges for accommodation at lodging facilities, and campgrounds. All of this revenue is deposited in the general fund. In addition to the 3% sales tax, Montana also charges use tax of 4% on all accommodations. Revenue from the lodging facility use tax is distributed to various entities after the Department of Revenue (DOR) deducts the amount needed for administering the tax, and the portion of the tax paid by state government agencies is remitted to the agencies. This revenue is mainly used for the purposes of promoting tourism.

Table 1 shows actual revenue for the lodging facility use tax distributed to the general fund for FY 1998 through FY 2008 and forecasted values for FY 2009 through FY 2011.

**Table 1**  
**Lodging Facility Sales Tax**  
**(\\$ millions)**



<sup>†</sup>The lodging facility sales tax was only collected for one month in FY 2003

Only revenue from the lodging facility sales tax is deposited in the general fund. SB 407 (2003 session) enacted the 3% sales tax on accommodations. The general fund received no revenue from accommodation taxes before FY 2003. The lodging facility sales tax was collected for only one month in FY 2003. The first full year of collections is FY 2004.

## Forecast Methodology

There are 3 steps in forecasting Lodging Facility sales tax:

**Step 1:** Estimate lodging charges. The Lodging Facility Use Tax is 4% of the taxable value of accommodations charges and the sales tax is 3% of the accommodations charges.

**Step 2:** Estimate vendor allowances. There is a vendor allowance for filing of 5% for filing in a timely manner, but may not exceed \$1,000.

**Step 3:** Apply 3% sales tax rate to taxable accommodations charges.

Table 2 shows the actual use tax, the sales tax, the vendor allowance, and the sum of these three numbers divided by the total tax rate of 7% yields taxable accommodations charges.

**Table 2**  
**Accommodations Charges and Taxes for FY 2004 - FY 2011**  
(\$ millions)

Fiscal Year	Sales Tax	+ Vendor Allowances	) ÷	Combined Tax Rate	=	Taxable Accommodation Charges	Percent Change
A 2004	( \$13.70 + \$9.28 + \$1.00 ) ÷ 7.00% =	\$342.57	12.60%				
A 2005	( \$14.60 + \$10.20 + \$0.75 ) ÷ 7.00% =	\$364.91	6.52%				
A 2006	( \$15.02 + \$10.68 + \$0.58 ) ÷ 7.00% =	\$375.45	2.89%				
A 2007	( \$17.91 + \$12.92 + \$0.51 ) ÷ 7.00% =	\$447.66	19.23%				
A 2008	( \$18.56 + \$13.39 + \$0.53 ) ÷ 7.00% =	\$464.05	3.66%				
F 2009	( \$19.37 + \$13.98 + \$0.54 ) ÷ 7.00% =	\$484.27	4.36%				
F 2010	( \$20.21 + \$14.62 + \$0.54 ) ÷ 7.00% =	\$505.37	4.36%				
F 2011	( \$21.10 + \$15.28 + \$0.54 ) ÷ 7.00% =	\$527.39	4.36%				
F 2012	( \$22.01 + \$15.97 + \$0.54 ) ÷ 7.00% =	\$550.37	4.36%				
F 2013	( \$22.97 + \$16.69 + \$0.54 ) ÷ 7.00% =	\$574.35	4.36%				

Table 3 summarizes the actual distribution of the use tax.

**Table 3**  
**Lodging Facility Use Tax Allocation**  
(\$ millions)

Entity	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
DOR Tax Administration	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
State Agency Reimbursement	\$0.20	\$0.21	\$0.23	\$0.25	\$0.27
MT Heritage Preservation & Development	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
Historical Society	\$0.17	\$0.18	\$0.19	\$0.19	\$0.20
University System	\$0.43	\$0.45	\$0.46	\$0.49	\$0.51
Fish, Wildlife, & Park	\$1.12	\$1.16	\$1.21	\$1.26	\$1.32
Commerce	\$11.58	\$12.02	\$12.55	\$13.11	\$13.69
Regional Travel Promotion	\$3.86	\$4.01	\$4.18	\$4.37	\$4.56
<b>Total Revenue</b>	<b>\$17.91</b>	<b>\$18.56</b>	<b>\$19.37</b>	<b>\$20.21</b>	<b>\$21.10</b>

The remainder is distributed as follows:

1. The Montana heritage preservation and development account receives \$400,000.
2. The Remainder is distributed in the following way:
  - a. 1% to the Montana Historical Society for roadside historic sites and signs,
  - b. 2.5% to the university system for tourism research,
  - c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
  - d. 67.5% to the Department of Commerce for statewide tourism promotion, and
  - e. 22.5% to regional tourism promotion agencies

## Data Sources

Fiscal year end revenues are from SABHRS MTGL0109 report, additional data was provided by DOR's GENTAX system.

# Health Care Facility Utilization Fees

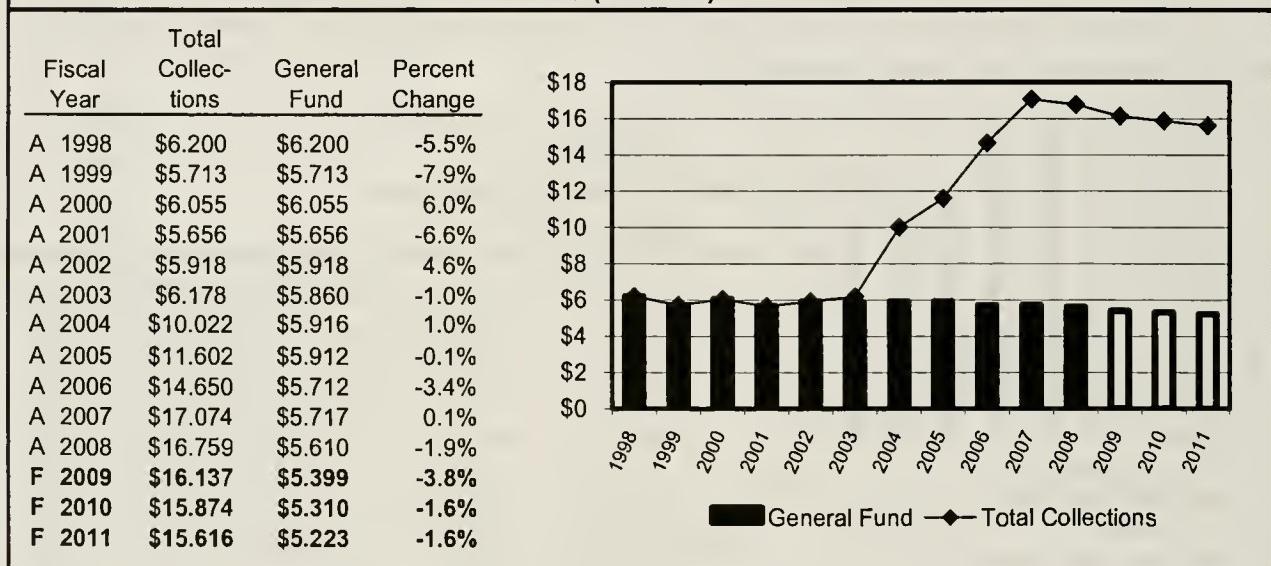
2011 Biennium

## Revenue Description

Montana imposes a per bed day fee on nursing facilities and intermediate care facilities for the developmentally disabled. The fee for nursing facilities was \$2.80 per bed day through FY 2002. The fee was raised to \$4.50 in FY 2003, to \$5.30 in FY 2005, and to \$7.05 in FY 2006. In FY 2007 it was raised to \$8.30 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Beginning in FY 2003, \$2.80 of the fee per day is allocated to the general fund and the remainder is allocated to a state special revenue fund.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). Fees collected from the facilities operated by the Department of Public Health and Human Services (DPHHS) are allocated 30% to the general fund and 70% to the prevention and stabilization special revenue fund.

Table 1  
Health Care Facility Utilization Fees General Fund Revenue  
\$ (Millions)



Nursing facility fees were enacted in HB 93 of the 1991 Session. The fee was \$1 per bed day for FY 1992 and \$2 per bed day for FY 1993 and applied only to bed days reimbursed by a third-party payer, such as insurance or a public assistance program. All revenue was deposited in the general fund. HB 333 (1993 Session) applied the fee to all bed days beginning in FY 1994. HB 333 also raised the fee to \$2.80 beginning in FY 1995, and allocated all revenue to the nursing facilities fee state special revenue account. SB 83 (1995 Session) allocated all revenue to the general fund beginning in FY 1996.

The 2003 Legislature passed three bills that changed health care facility fees. HB 705 set the nursing facilities fee at \$4.50 in FY 2004 and \$5.30 beginning in FY 2005, and allocated the additional revenue to the nursing facilities fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNC) subject to the nursing facility fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization account. HB 722 created a new fee equal to 5% of charges for care that applied only to the Montana Developmental Center (MDC). The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization fund.

In 2005 the Legislature passed two bills, HB 749 and SB 82, which changed health care facility fees. HB 749 increased the facility bed tax to \$7.05 per day in FY 2006 and to \$8.30 per day in FY 2007. The increased revenue from fees collected from non-state facilities is allocated to the nursing facilities fee account. SB 82 increased the bed tax on

intermediate facilities for the developmentally disabled from 5% to 6% and amended the definition of facilities to which the 6% bed tax applies to include intermediate care facilities for the mentally retarded. SB 82 was effective immediately on passage and was retroactive in its effect back to the beginning of tax year 2005.

## Forecast Methodology

Revenue is estimated separately for fees from private nursing homes, the MMHNCC, and the MDC. The estimate is based on forecast bed days for the MMHNCC and budget estimates for the MDC. Forecast bed days for non-state owned facilities are based on the historic trend.

- From FY 1998 through FY 2008, taxable bed days at non-state facilities declined at an average rate of 2.06%. However, beginning in 2001 the rate of decline slowed and the average rate of decline over the period from 2002 through 2008 was 1.80%. Bed days are projected to continue to decline at the rate of 1.80% per year in FY 2009 through FY 2011. Revenue from non-state facilities is declining over the forecast period because fewer bed days are estimated.
- Bed days for FY 2009 through FY 2011 for the Montana Mental Health Nursing Care Center (MMHNC) are forecast by DPHHS, which operates the facility. Total collections equal the number of bed days multiplied by the fee per bed day of \$8.30. Thirty percent of collections are allocated to the general fund and seventy percent are allocated to the prevention and stabilization account. For the period of FY 2009 through FY 2011, bed days at MMHNC are estimated to remain constant at 30,145.
- MDC is the only facility subject to the intermediate care facility utilization fee. The fee is 6% of the cost of care billed to residents and third parties. The cost of care for FY 2009 through FY 2011 is estimated by DPHHS, which operates the facility, and is based on planned numbers of residents and expected costs. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

## Distributions

Total collections for each fund are calculated by summing the collections from non-state facilities and collections from the two state facilities. Table 2 shows total projected collections for each fund and the total projected collections for all funds for FY 2009 through FY 2011.

**Table 2**  
**Total Health Care Facilities Utilization Fee Collections and**  
**Distibution**  
**(\$ millions)**

Fiscal Year	Nursing Facility		Prevention and Stabilization		Total Collections
	General Fund	Utilization Fee Account		Account	
F 2009	\$5,399	+ \$9,898	+ \$0.840	=	\$16.137
F 2010	\$5,310	+ \$9,719	+ \$0.845	=	\$15.874
F 2011	\$5,223	+ \$9,544	+ \$0.849	=	\$15.616

## Data Sources

Past collections are from SABHRS Data Mine. Past bed days are from the Department of Revenue as reported on tax returns. Future bed days and cost of care at MMHNCC and MDC are from DPHHS.

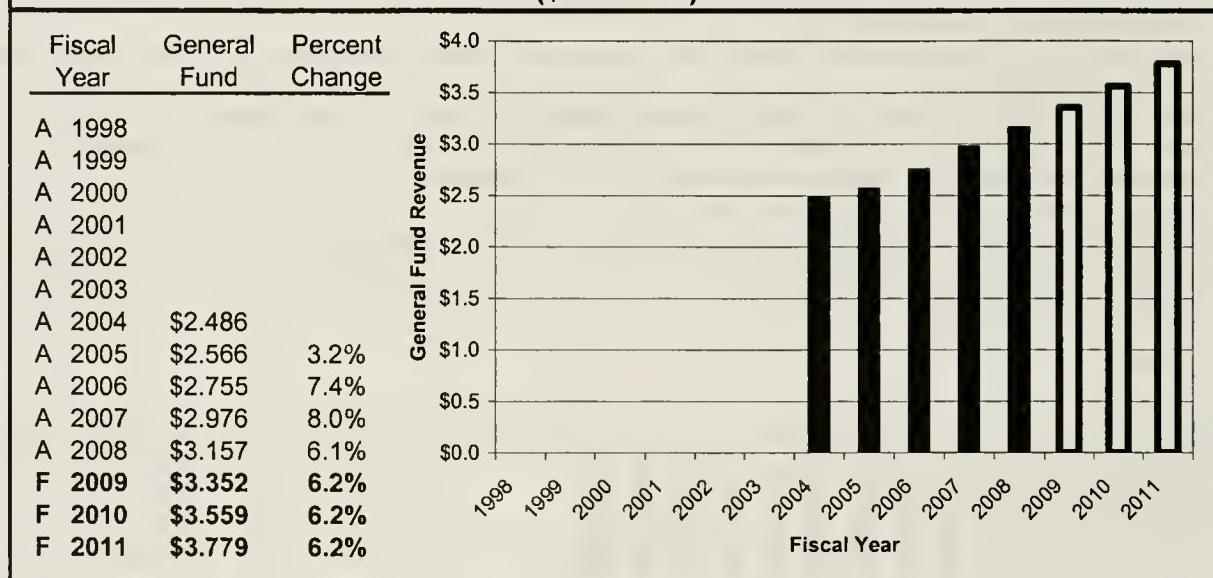
# Rental Car Sales Tax

2011 Biennium

## Revenue Description

Montana imposes a 4% tax on rental vehicle sales. The rental vehicle sales tax collections began in FY 2004. All revenue from the rental car sales tax is allocated to the general fund. Table 1 shows actual revenue for the rental car sales tax for FY 2004 through FY 2008 and projected revenue for FY 2009 through FY 2011.

**Table 1**  
**Rental Car Sales Tax**  
**(\$ millions)**



## Forecast Methodology

There are two steps to calculating rental car sales tax

**Step 1:** Calculate an average growth rate. Rental car sales tax revenue is highly reliant on the tourism industry and a downturn in the national economy could result in a decline in the growth of the tourist industry.

**Step 2:** Apply that growth rate to the last fiscal year tax revenue.

Due to the limited number of years this tax has been levied, an average growth rate for tax revenue was calculated. The average tax revenue growth rate of 6.17% was applied to the prior year's tax revenue to forecast revenue for FY 2009 through FY 2011.

## Data Sources

Historic general fund revenue from the rental car tax was from SABHRS MTGL0109 report.



GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## OTHER TAXES AND REVENUE SECTION 9

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING



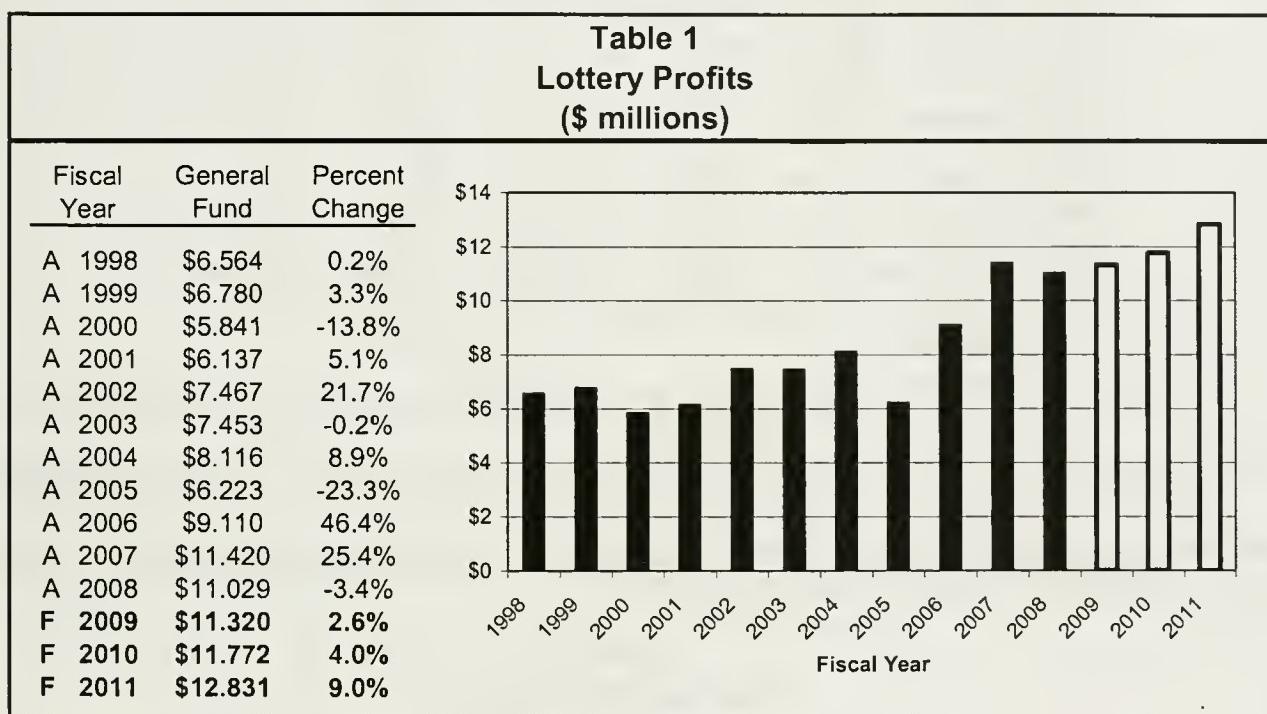
# Lottery Profits

2011 Biennium

## Revenue Description

In accordance with 23-7-402, MCA, net revenue from the operation of the lottery is to be deposited quarterly in the general fund. Net revenue from the lottery includes the sum of ticket sales, short-term investment pool and Multi-State Lottery Association interest and miscellaneous income, less payment of prizes, commissions, and operating expenses. Table 1 shows actual lottery revenue transferred to the general fund for FY 1998 to FY 2008 and forecasted revenues for FY 2009 through FY 2011.

**Table 1**  
**Lottery Profits**  
**(*\$ millions*)**



Lower than usual Powerball jackpots are the main reason for the large decrease in revenues from FY 2004 to FY 2005. Beginning FY 2006 the chances of winning the Powerball were decreased in order to increase the jackpot levels, and this increased player participation for FY 2006 and FY 2007. In FY 2008 lottery sales continued to rise, however, lottery expenses rose slightly faster resulting in a net decrease to the general fund.

## Forecast Methodology

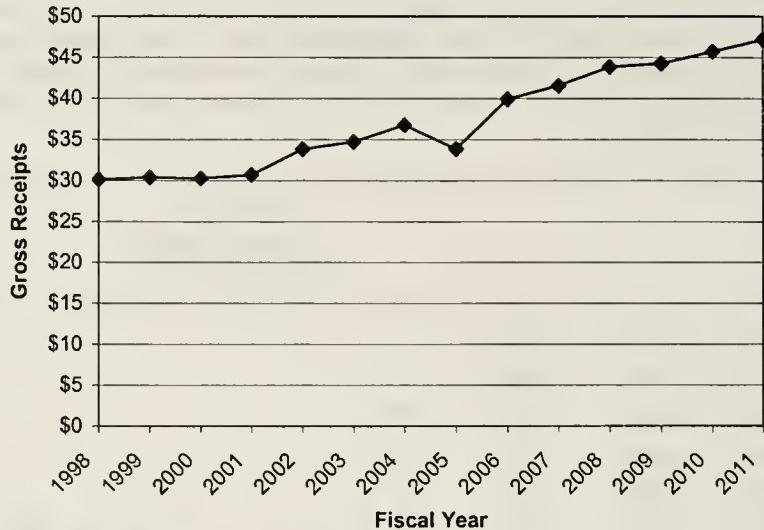
Lottery revenue is forecast in three main steps:

**Step 1:** Forecast the amount of prizes and commissions paid out for the gross receipts.

Table 2 shows actual gross receipts for FY 1998 through FY 2008, and forecasted receipts for FY 2009 through FY 2011.

**Table 2**  
**Lottery Gross Receipts**  
**( $\$$  millions)**

Fiscal Year	Gross Receipts
A 1998	\$30.119
A 1999	\$30.386
A 2000	\$30.261
A 2001	\$30.699
A 2002	\$33.817
A 2003	\$34.696
A 2004	\$36.740
A 2005	\$33.841
A 2006	\$39.929
A 2007	\$41.569
A 2008	\$43.827
F 2009	\$44.258
F 2010	\$45.719
F 2011	\$47.179



**Step 2:** The prizes and commissions are estimated as a percentage of gross receipts. There is a clear upward trend in gross receipts. A statistical regression is used to forecast gross receipts for FY 2009 through FY2010.

Table 3 shows actual prizes and commission, the ratio of prizes and commission to gross receipts for FY 1998 through FY 2008, and forecasted values for FY 2009 through FY 2010.

**Table 3**  
**Prizes and Commissions**  
**( $\$$  millions)**

Fiscal Year	Gross Receipts	Prizes and Comm.	% of Gross Receipts
A 1998	\$30.119	$\div$ \$16.971	= 56.35%
A 1999	\$30.386	$\div$ \$16.735	= 55.08%
A 2000	\$30.261	$\div$ \$17.321	= 57.24%
A 2001	\$30.699	$\div$ \$17.462	= 56.88%
A 2002	\$33.817	$\div$ \$19.277	= 57.00%
A 2003	\$34.696	$\div$ \$19.599	= 56.49%
A 2004	\$36.740	$\div$ \$20.771	= 56.53%
A 2005	\$33.841	$\div$ \$19.769	= 58.42%
A 2006	\$39.929	$\div$ \$23.056	= 57.74%
A 2007	\$41.569	$\div$ \$23.886	= 57.46%
A 2008	\$43.827	$\div$ \$25.403	= 57.96%
F 2009	\$44.258	$\div$ \$25.233	= 57.01%
F 2010	\$45.719	$\div$ \$26.066	= 57.01%
F 2011	\$47.179	$\div$ \$26.899	= 57.01%

**Step 3:** Deduct budgeted operating expenses. Operating expenses and other revenue are forecast, and the pieces are added together to yield the general fund revenue. There were abnormally large levels of depreciation and

amortization in past years, which has declined in recent years. It is forecasted that these values will remain at the FY 2008 levels in the future.

**Table 4**  
**Total General Fund Revenue**  
**( $\$$  millions)**

Fiscal Year	Gross Receipts	Other Income	Prizes & Comm.	Expenses	General Fund Revenue
A 2003	\$34.696	+ \$0.077	- \$19.599	- \$7.721	= \$7.453
A 2004	\$36.740	+ \$0.038	- \$20.771	- \$7.892	= \$8.116
A 2005	\$33.841	+ \$0.062	- \$19.769	- \$7.911	= \$6.223
A 2006	\$39.929	+ \$0.200	- \$23.056	- \$7.962	= \$9.110
A 2007	\$41.569	+ \$0.265	- \$23.886	- \$6.527	= \$11.420
A 2008	\$43.827	+ \$0.077	- \$25.403	- \$7.473	= \$11.029
F 2009	\$44.258	+ \$0.077	- \$25.233	- \$7.705	= \$11.320
F 2010	\$45.719	+ \$0.077	- \$26.066	- \$7.881	= \$11.772
F 2011	\$47.179	+ \$0.077	- \$26.899	- \$7.450	= \$12.831

There is a small portion of other revenue, mainly attributable to the short term interest earning of prize money. Other revenue is calculated to remain at the FY 2008 levels for FY 2009 through FY 2011.

## Data Sources

Fiscal year-end revenues were obtained from SABHRS MTGL0109 report, and other lottery figures were provided by the Montana State Lottery and through their web site, <http://www.montanalottery.com/annualreports.xsp> .

# Highway Patrol Fines

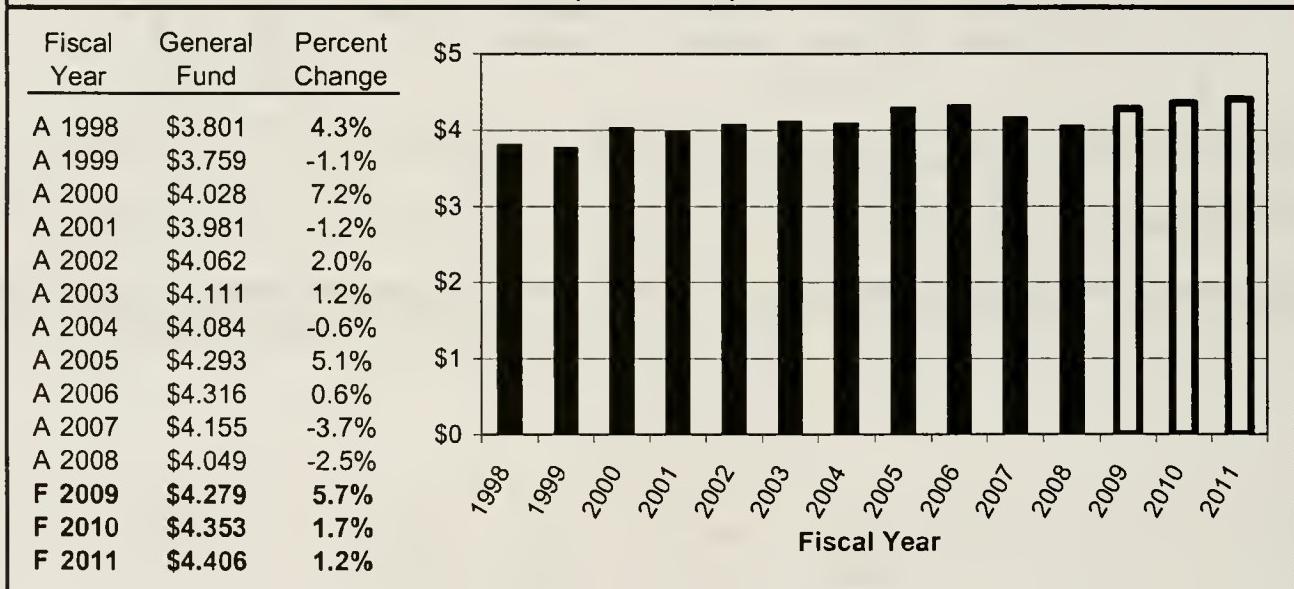
2011 Biennium

## Revenue Description

Highway patrol fines are provided for in Title 61, Chapter 8, parts 3 and 7, MCA. Citation fines are collected in Justice Courts. Highway patrol fines are distributed 50% to the county general fund and 50% to the state general fund, pursuant to 3-10-601, MCA. One hundred percent of fines resulting from highway patrol officer stops for highway use or vehicle violations processed in any other court are paid into the state general fund (61-12-701, MCA). In all cases, the fines received by the state are deposited in the general fund.

Table 1 shows actual general fund revenue from highway patrol fines for FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011.

**Table 1**  
**Highway Patrol Fines**  
**(\$ millions)**



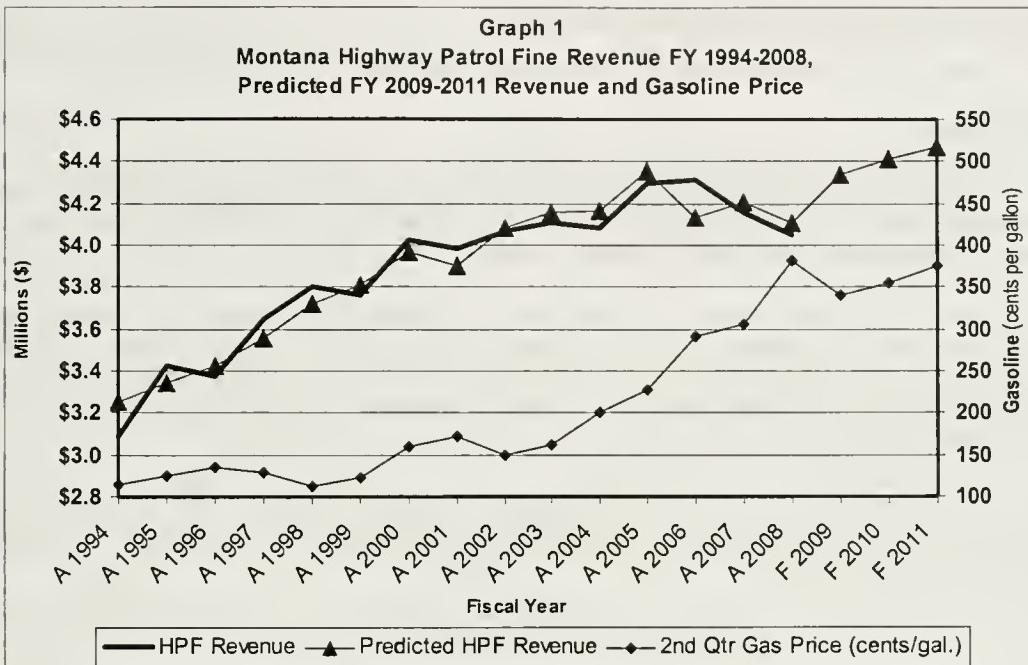
## Significant Factor

In FY 2005, the full impact of 2003 Session (HB 195) mandatory penalties for driving under the influence (DUI) and (SB 13) lower legal blood alcohol thresholds, generated revenue increases.

## Forecast Methodology

The revenue estimate is based on a regression model that forecasts revenue based on time trend, actual and forecast gasoline prices, with adjustments for legislation in FY 2000 and FY 2005. Including gasoline prices in the model improved the model fit and accounted for recent declines in revenue.

The model fit and forecast is presented in Graph 1. The graph illustrates that revenues tend to increase over time, but slow (or decrease) when gasoline prices rise rapidly.



## Data Sources

SABHRS provided historical tax revenue. Highway Patrol Headquarters staff provided information on trooper management changes, and fiscal year operations reports. Gasoline prices and forecast were obtained from *Global Insight* October 2008 national forecast.

# Public Contractors' Gross Receipts Tax

2011 Biennium

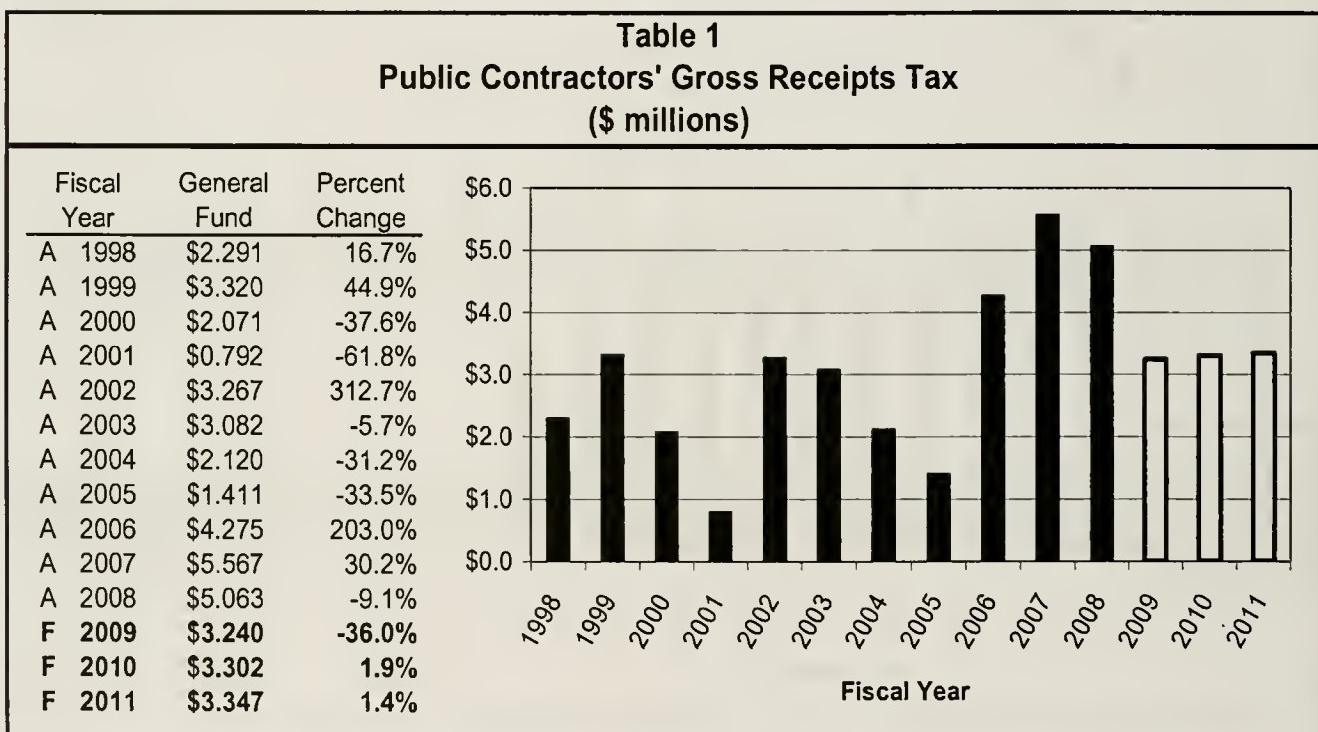
## Revenue Description

Under 15-50-205, MCA, a 1% tax is assessed on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset or credit against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is allocated to the general fund.

Table 1 shows general fund revenue from the contractors' gross receipts tax. General fund revenue is forecast to decrease for FY 2009 through FY 2011 due to decreasing Montana Department of Transportation (MDT) contracts and decreasing other contracts. It should be noted, however, that other contracts in FY 2007 and FY 2008 were unusually high, making the reduced revenue more in line with previous years.

SB 323 (2005 Session) allows public contractors to carry forward individual income or corporate license tax credits for up to five years; this change appears to have an unexpectedly low fiscal impact.

**Table 1**  
**Public Contractors' Gross Receipts Tax**  
**(\$ millions)**



## Significant Factors

Variation in revenue is largely the result of refund processing fluctuations. Due to administrative and technological changes, backlogs of refunds accumulated in fiscal years 1999, 2002, 2003, and 2006. The high gross receipts of FY 2007 resulted in increased revenue despite the large number of refunds processed. Following the completion of administrative changes in FY 2006 and the processing of the ensuing backlog through FY 2008, the Department of Revenue (DOR) expects all future backlog amounts will be processed in the following year. This should nearly eliminate revenue fluctuations due to processing.

## Forecast Methodology

There are three steps in calculating public contractors' gross receipts tax revenue:

**Step 1:** Estimate gross tax receipts based on the expected volume of public contracts. MDT projects its payments to be \$2.400 million in FY 2009, \$2.524 million in FY 2010, and \$2.615 million in FY 2011. Other contractor payments historically fluctuate; therefore, other contractor payments for FY 2009 through FY 2011 are estimated at the average level observed from FY 2006 through FY 2008, which is \$4.120 million.

**Step 2:** Forecast total tax credits and refunds. Since FY 1998, credits averaged 23% of gross receipts and refunds averaged 27% of gross receipts. This ratio is used to forecast credits and refunds for FY 2009 through 2011. This percentage assumes that at fiscal year end, there will always be some credits and refunds to process, and that the accounting procedures will not change to accrue these amounts.

**Step 3:** Subtract total credits and refunds from gross receipts to obtain the general fund revenue.

The following table shows actual gross receipts from MDT and other contractors, and credits and refunds processed from FY 1998 through FY 2008, as well as forecast amounts for FY 2009 through FY 2011.

**Table 2**  
**Gross Receipts and Credits & Refunds**  
**( $\$$  millions)**

Fiscal Year	MDT	Other Contractors	Gross Receipts	Credits	Refunds	General Fund*
A 1998	\$1.733	+ \$3.234	= \$4.967	- ( \$0.624	+ \$2.053 )	= \$2.290
A 1999	\$2.006	+ \$3.895	= \$5.902	- ( \$1.013	+ \$1.569 )	= \$3.320
A 2000	\$2.349	+ \$3.167	= \$5.516	- ( \$1.518	+ \$1.927 )	= \$2.071
A 2001	\$2.005	+ \$2.497	= \$4.503	- ( \$1.840	+ \$1.871 )	= \$0.791
A 2002	\$2.177	+ \$3.146	= \$5.323	- ( \$1.263	+ \$0.523 )	= \$3.537
A 2003	\$2.376	+ \$3.330	= \$5.706	- ( \$0.889	+ \$1.736 )	= \$3.082
A 2004	\$2.539	+ \$3.465	= \$6.004	- ( \$2.281	+ \$1.602 )	= \$2.120
A 2005	\$2.351	+ \$3.401	= \$5.752	- ( \$2.296	+ \$2.045 )	= \$1.411
A 2006	\$2.872	+ \$3.288	= \$6.160	- ( \$0.518	+ \$1.365 )	= \$4.277
A 2007	\$3.441	+ \$4.898	= \$8.339	- ( \$1.150	+ \$1.619 )	= \$5.570
A 2008	\$2.793	+ \$4.173	= \$6.966	- ( \$0.974	+ \$0.927 )	= \$5.064
F 2009	\$2.400	+ \$4.120	= \$6.520	- ( \$1.491	+ \$1.789 )	= \$3.240
F 2010	\$2.524	+ \$4.120	= \$6.644	- ( \$1.519	+ \$1.823 )	= \$3.302
F 2011	\$2.615	+ \$4.120	= \$6.735	- ( \$1.540	+ \$1.848 )	= \$3.347

\*These General Fund amounts may not match those on Table 1 due to prior year revenue

## Data Sources

Gross tax receipts, tax credits, property refunds and net general fund collections by month were obtained from DOR and SABHRS.

# Driver's License Fees

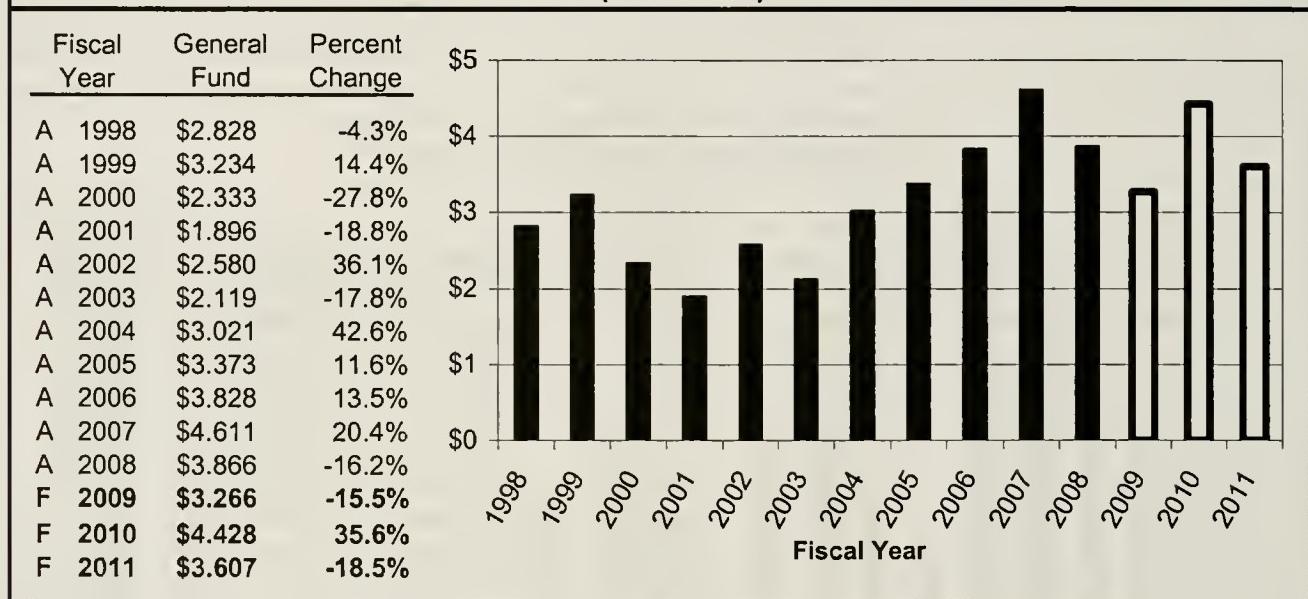
2011 Biennium

## Revenue Description

Fees for driver's licenses, commercial driver's licenses, and motorcycle endorsements are set in 61-5-111, MCA. The fee for replacing a lost or destroyed license is set in 61-5-114, MCA. The distribution of revenue from driver's license fees is set in 61-5-121, MCA. Counties retain a small percentage of fees they collect.

Table 1 shows general fund revenue from driver's license fees. The swings in fiscal year revenue are principally due to the conversion from four-year licenses to eight-year licenses during the October 1995 through September 1999 period.

**Table 1**  
**Driver's License Fees**  
(\$ millions)



Basic fees for licenses are five dollars per year that the license is valid. Additional fees are charged for motorcycle endorsements (\$0.50 per year). Commercial driver's licenses (\$10 per year for inter-state and \$8.50 per year for intra-state licenses) are valid for a five-year period and include basic driving privileges that run concurrently with the commercial license term. Reduced fees are available to active military personnel for basic drivers' licenses and motorcycle endorsements. Replacement licenses are \$10. A \$0.50 renewal notice fee is charged at issue of a license. Most license fees were revised by the 2003 Legislature. Commercial drivers licenses were reduced to 5 years and the fees were revised by HB 192 during the 2005 session. The distribution of fees was corrected by the 2007 legislature in HB 23.

## Forecast Methodology

The forecast of general fund drivers' license fee revenue is prepared by:

**Step 1:** Calculating the distribution of licenses by term and the underlying licensed population growth, by aging historical counts of the driving population.

**Step 2:** Applying statutory fees and the distribution of licensed drivers at renewal age, by license term, to calculate the weighted average drivers' license fee in each fiscal year.

**Step 3:** Estimating the apparent number of drivers licenses issued each fiscal year from 2000 through 2008 by dividing the SABHRS reported total basic drivers' license collections by the average fees.

**Step 4:** Forecasting licenses to be issued by growing the license estimate from the prior equivalent point in the eight-year license cycle by the underlying marginal increase in the driver population. These estimates are then multiplied by average fees to estimate total basic license collections.

**Step 5:** Projecting drivers' license, motorcycle endorsement, and replacement license revenue based on their three-year average proportion relative to basic license.

**Step 6:** Allocating statutory distributions of revenue to the state traffic education and state motorcycle safety accounts. The remainder is distributed to county or state general funds.

Steps 1 through 4 are summarized in Table 2:

**Table 2**  
**Estimate of Basic Drivers' License Collections**

Fiscal Year	Base Drivers' License Fees	Weighed Average Fee	Cumulative Eight Year Growth	Estimate of Issued Licenses	Forecast Revenue
A 2000	\$3,319,740	÷ \$25.56		= 129,875	
A 2001	\$2,572,672	÷ \$25.53		= 100,782	
A 2002	\$3,487,253	÷ \$25.59		= 136,295	
A 2003	\$2,865,442	÷ \$25.70		= 111,487	
A 2004	\$4,108,010	÷ \$30.64		= 134,084	
A 2005	\$4,709,097	÷ \$32.21		= 146,203	
A 2006	\$3,902,768	÷ \$32.25		= 121,022	
A 2007	\$4,798,644	÷ \$32.49		= 147,699	
A 2008	\$3,958,717	÷ \$32.58		= 121,515	
F 2009		\$32.38 x 3.9%	x	104,735 = \$3,391,153	
F 2010		\$32.31 x 4.4%	x	142,300 = \$4,598,291	
F 2011		\$32.27 x 4.1%	x	116,049 = \$3,745,361	

Table 3 shows revenue by type of licenses issued.

**Table 3**  
**Drivers' License Revenue by Fee Type**  
**FY 2006 through FY 2011 (\$ millions)**

Fiscal Year	Basic Drivers' Licenses	Commercial Licenses	Motorcycle Endorsement	Replacement Licenses	License Revenue	Estimate of County Retention
A 2006	\$3.915	\$0.447	\$0.035	\$0.352	\$4.748	\$0.015
A 2007	\$4.806	\$0.580	\$0.051	\$0.325	\$5.762	\$0.010
A 2008	\$3.969	\$0.457	\$0.039	\$0.326	\$4.791	\$0.012
<b>Average Proportion</b>		<b>0.117</b>	<b>0.010</b>	<b>0.079</b>	<b>1.206</b>	<b>0.0029</b>
<b>Revenue by License Type</b>						
F 2009	\$3.391	\$0.397	\$0.034	\$0.268	\$4.089	\$0.010
F 2010	\$4.598	\$0.538	\$0.046	\$0.363	\$5.545	\$0.013
F 2011	\$3.745	\$0.438	\$0.037	\$0.296	\$4.516	\$0.011

Table 4 shows the basis for distributing fees for each license type to the state traffic safety fund, the state motorcycle safety fund and state and county general funds as set by 61-5-121, MCA.

	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Replacement License
General Fund	76.80%	80.56%	33.20%	87.50%
County or State General Fund	2.50%	2.50%	3.34%	3.75%
Traffic & Safety Education	20.70%	16.94%	0.00%	8.75%
Motorcycle Safety Training	0.00%	0.00%	63.46%	0.00%
	100.00%	100.00%	100.00%	100.00%

The estimates from Table 3 are multiplied by the corresponding distribution percentage listed in Table 4 to estimate the projected drivers' license receipt allocation to the state special revenue accounts and to the state general fund is presented in Table 4. SABHRS revenue data shows that approximately 10% of licenses are issued by counties. Of the small portion of revenue directed to either the county or the state general fund 90% is allocated to the state general fund. The resulting state special revenue and general fund estimates are presented in Table 5. The general fund portion is also presented in Table 1.

Table 5 Driver's License Fee Allocation FY 2009 through FY 2011 (\$ millions)				
Fiscal Year	General Fund	Traffic & Safety Education	Motorcycle Safety Training	Total
F 2009	\$3.266	\$0.793	\$0.021	\$4.080
F 2010	\$4.428	\$1.075	\$0.029	\$5.532
F 2011	\$3.607	\$0.875	\$0.024	\$4.506

## Data Sources

SABHRS provided historical tax revenue data. State licensed drivers, by age group, from FY 1996 through FY 2005 are from the Federal Highway Administration website, based on FHWA – 562 from submissions by the State. The FHWA form 562 reports for FY 2006 through 2008 were provided by Motor Vehicles Division of the Department of Justice. Population estimates and projections for the Montana population 15 to 19 years of age are from *Global Insight* Research Service's Montana data extract for July 2008.

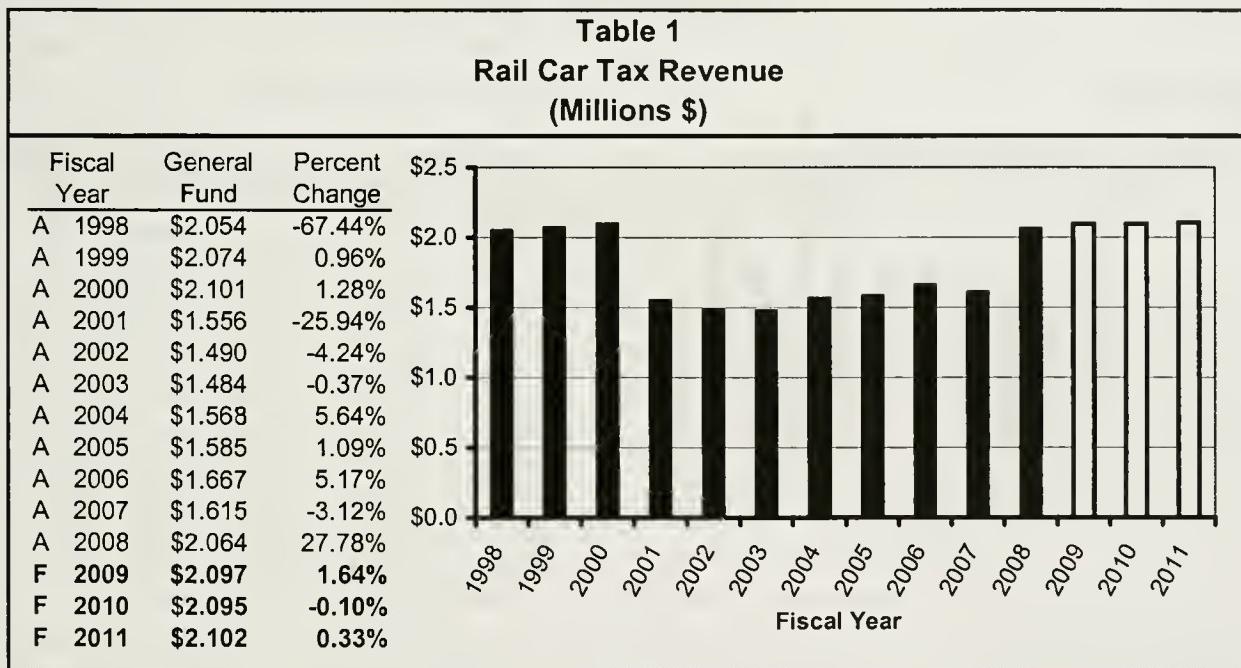
## Revenue Description

Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is assessed based on the taxable value of the rolling stock of freight line companies. Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, defines the average statewide mill levy. The general fund receives 100% of the rail car tax revenue.

The higher general fund collections in FY 1998 through FY 2000 are a product, in part, of earlier settlements with rail car companies for back taxes. HB 128, HB 174, SB 111, and SB 200, passed during the 1999 Legislative Session, decreased the class 12 tax rate, causing a decline in revenue in FY 2001.

Table 1 shows actual general fund revenue from the rail car tax for FY 1998 though FY 2008 and forecast revenue for FY 2009 through FY 2011.

**Table 1**  
**Rail Car Tax Revenue**  
**(Millions \$)**



## Forecast Methodology

**Step 1:** Forecast the allocated market value of rail car companies operating in Montana. The Montana allocated market value of rail cars is expected to grow slowly as a national backlog rail car deliveries clear rail car backorders to maintain or grow the value of the national rail car fleet.

**Step 2:** Apply the estimates of future class 12 tax rates developed as part of the property tax estimate. The rate incorporates the present law effects of reappraisal on the effective weighted average of the tax rates that apply to all commercial and industrial property statewide.

**Step 3:** Estimate the average statewide mill levy for commercial and industrial property. The mill rates that apply to rail car property are projected to grow at a slower rate due to reappraisal values and class 3 and 4 tax rates and exemptions are held constant at the TY 2008 rates.

**Step 4:** Calculate general fund revenue.

Table 3 presents the calculation and forecast of aggregate rail car tax collections. The net effect of the factors are presented in Table 2. Rail car tax collections hold essentially level at just over \$2 million over the forecast period.

**Table 2**  
**Calculation of Rail Car Tax General Fund Revenue**  
**FY 2008 through FY 2011**

Description	FY 2008 Actual	FY 2009 Projected	FY 2010 Projected	FY 2011 Projected
Total Montana Allocated Value	\$113,858,954	\$116,183,769	\$118,556,053	\$120,976,775
Multiply by Class 12 Tax Rate	3.52%	3.44%	3.36%	3.29%
Taxable Value	\$4,007,835	\$3,996,722	\$3,984,659	\$3,982,182
Multiply by Mill Levy	520.19	524.79	525.85	527.93
<b>General Fund Revenue</b>	<b>\$2,084,825</b>	<b>\$2,097,440</b>	<b>\$2,095,314</b>	<b>\$2,102,323</b>

## Data Sources

Historical tax revenue is from SABHRS. The summary rail car tax database (TY 2005 -TY 2008) and the Class 12 tax rate for TY 2008 was provided by the department of Revenue. National rail car orders, deliveries and supply backlogs are from the Railcar Supply Institute's website (<http://www.railwaysupply.org>).

# General Fund Other Revenue

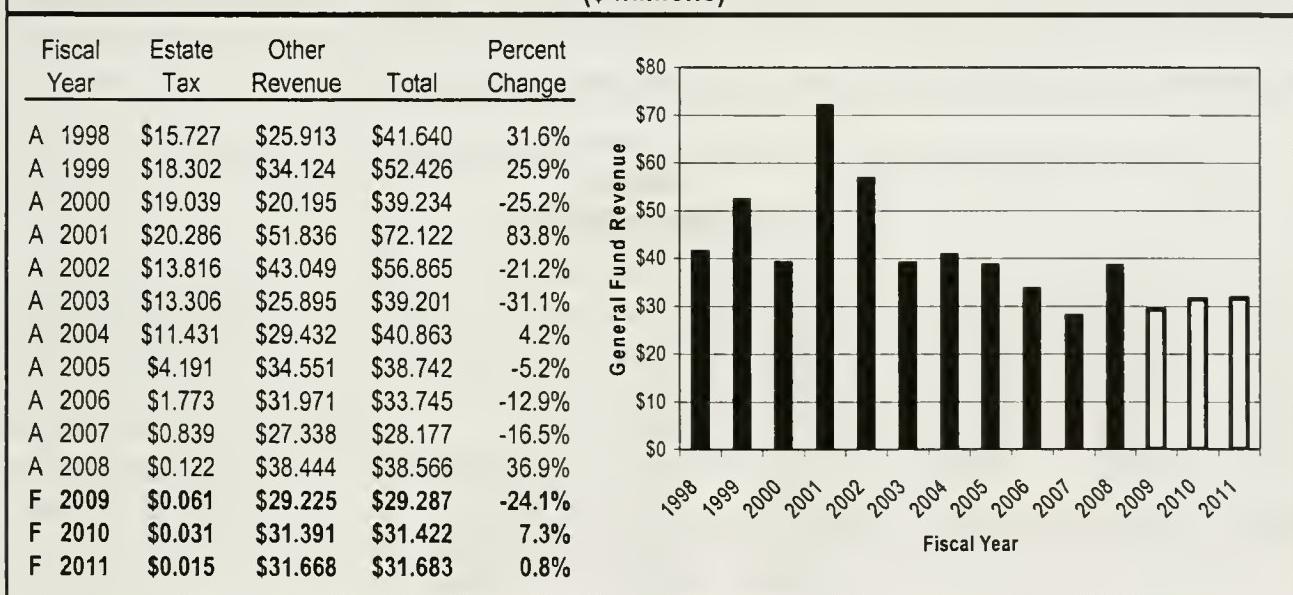
2011 Biennium

## Revenue Description

Other revenue represents the sources of general fund revenue that do not have an individual line item in the revenue estimating resolution. Items included in other revenue have general fund revenue of around \$2 million or less. Other revenue also includes one-time revenues. These one-time types of revenue have been as large as \$8 million as was the case in FY2008.

Table 1 shows actual general fund other revenue from FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011.

**Table 1**  
**General Fund Other Revenue**  
(**\$ millions**)



The Montana estate tax was repealed by the passage of Legislative Referendum 116, and does not apply for deaths occurring on or after January 1, 2001. Although Montana voters have repealed the inheritance tax and federal law has eliminated the estate tax, the Department of Revenue still collects inheritance and estate tax revenue from unsettled estates of deaths before both taxes were eliminated. All estate and inheritance tax revenue is deposited in the general fund. In the past the estate tax was a much larger revenue source and is shown separately.

## Forecast Methodology and Projection Calculation

The general fund other revenue is forecast in four steps:

### Step 1: Estimate future one-time revenue.

The large one-time revenue in FY 2003 and FY 2005 was mainly due to legislative action. In FY 2008, the main one-time revenue was from the sale of the armory in Missoula for \$3.5 million; unused fund from the *Jobs and Growth Tax Relief Act* totaling \$2.465 million, and HB 4 (May 2007 special session) funded \$2.48 million for the Miles City Readiness Center from the long range building fund. The Department of Military Affairs received funding from the federal government, and as a result of specific wording in HB 4, \$2.4 million was returned to the general fund.

### Step 2: Isolate and estimate large sources of other revenue.

- Coal tax transfers are projected to be the difference between the OBPP estimate of the shared account and the appropriations. The forecast was made under the assumption that appropriations will match revenue estimates in the next biennium.
- The Bentonite tax is revenue based on the weight of bentonite production in the state of Montana. Revenue is split between the counties of production, the university system, and the general fund. Bentonite production is estimated to be similar to FY 2007 and FY 2008 levels, and the total revenue is distributed in accordance with 15-39-110, MCA.

**Step 3:** Isolate and estimate smaller sources of revenue.

- There are many small sources of revenue that were forecast individually. These sources are projected like the larger sources of revenue; they are assessed for law changes and forecast based on trends or discussions with agencies.
- The large increase in FY 2008 is primarily due to SB 269 (2007 Session) that increased the number of beer and wine licenses that were issued in FY 2008. It is estimated that most of this increase in revenue was realized in FY 2008 and will return to prior year levels in FY 2009 through FY 2011.

**Step 4:** Estimate the remaining revenue as a group and sum the four categories. The general fund revenue that is not classified in one of the three previous groups is estimated as a single group.

Table 2 shows revenue to the general fund that is categorized as one-time revenue.

**Table 2**  
**One-Time Revenue**  
**(\$ millions)**

Fiscal Year	Total Collections	% Change
A 2001	\$0.478	
A 2002	\$0.564	17.83%
A 2003	\$2.300	308.11%
A 2004	\$0.917	-60.13%
A 2005	\$4.634	405.36%
A 2006	\$1.061	-77.09%
A 2007	\$0.097	-90.89%
A 2008	\$8.387	8570.78%
F 2009	\$1.000	-88.08%
F 2010	\$1.000	0.00%
F 2011	\$1.000	0.00%

No extra ordinary events are forecast at this time and one-time revenue is anticipated to be \$1 million for FY 2009 through FY 2011.

The next category of other revenue is large sources of other revenue shown in Table 3. Collections are projected by examining historical deposits to determine whether there is a trend or other pattern in receipts.

**Table 3**  
**Large Individual Sources of Other Revenue**  
**( $\$$  millions)**

Component of Estimate	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Fire Reimbursement	\$0.612	\$0.146	\$5.540	\$3.535	\$0.302	\$0.088	\$0.088	\$0.088	\$0.088
Abandoned Property	\$2.373	\$3.183	\$3.179	\$3.310	\$2.359	\$4.264	\$3.471	\$3.471	\$3.471
Clerk of Court Fees	\$2.667	\$2.839	\$3.009	\$3.108	\$3.135	\$3.349	\$3.507	\$3.671	\$3.843
Vet's Home Transfer	\$0.000	\$1.055	\$2.893	\$2.653	\$4.116	\$2.636	\$2.636	\$2.636	\$2.636
Portfolio Transfer	\$2.036	\$2.113	\$2.110	\$2.234	\$2.997	\$3.309	\$3.474	\$3.647	\$3.829
Vehicle and Driving Records	\$1.859	\$1.675	\$2.111	\$2.098	\$2.102	\$2.111	\$2.103	\$2.103	\$2.103
SWCAP / SFCAP	\$1.196	\$2.215	\$2.514	\$1.844	\$1.723	\$2.399	\$2.785	\$4.034	\$4.236
HB 536 Criminal Surcharge	\$0.000	\$0.000	\$0.028	\$1.589	\$1.660	\$1.616	\$1.622	\$1.622	\$1.622
Single State Registration System Fees	\$1.071	\$1.067	\$1.100	\$1.304	\$0.079	-\$0.035	\$0.000	\$0.000	\$0.000
MSU / EMC 1992 Refunding Bonds	\$0.838	\$0.838	\$0.833	\$0.829	\$0.696	\$0.694	\$0.697	\$0.697	\$0.697
Coal Tax Transfers	\$0.000	\$0.000	\$0.533	\$0.550	\$0.448	\$0.000	\$0.000	\$0.000	\$0.000
Bentonite Production	\$0.000	\$0.000	\$0.000	\$0.504	\$0.417	\$0.564	\$0.509	\$0.542	\$0.566
Estate Tax	\$13.306	\$11.431	\$4.191	\$1.773	\$0.839	\$0.122	\$0.061	\$0.031	\$0.015
Taylor Grazing	\$0.000	\$0.000	\$0.000	\$0.000	\$0.135	\$0.121	\$0.128	\$0.128	\$0.128
<b>Total Large Individual Sources</b>	<b>\$25.959</b>	<b>\$26.561</b>	<b>\$28.042</b>	<b>\$25.332</b>	<b>\$21.006</b>	<b>\$21.240</b>	<b>\$21.080</b>	<b>\$22.669</b>	<b>\$23.234</b>

Table 4 shows the four different revenue categories that make up general fund other revenue for FY 2008 through FY 2011.

**Table 4**  
**Total Other Revenue**  
**( $\$$  millions)**

Component of Estimate	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
One-Time Revenue	\$1.061	\$0.097	\$8.387	\$1.000	\$1.000	\$1.000
Large Sources of Other Revenue	\$25.332	\$21.006	\$21.240	\$21.080	\$22.669	\$23.234
Small Sources of Other Revenue	\$6.907	\$6.493	\$8.150	\$6.601	\$7.147	\$6.844
Revenue Items Estimated As a Group	\$0.445	\$0.582	\$0.790	\$0.605	\$0.605	\$0.605
<b>Total Other Revenue</b>	<b>\$33.745</b>	<b>\$28.177</b>	<b>\$38.566</b>	<b>\$29.287</b>	<b>\$31.422</b>	<b>\$31.683</b>

## Data Sources

SABHRS Report MTGL0109 and SABHRS Date Mine provided historical revenue. *Global Insight* provided forecast numbers for state population, income and various other statistics used in estimating various sources of revenue.





GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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# NON-GENERAL FUND REVENUE ESTIMATES SECTION 10

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING



## **Non-General Fund Revenue Estimates**

2011 Biennium

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Non-general fund estimates that have individual write-ups are as follows:

- State Land Trusts Interest and Income (School Interest and Income)
- Tobacco Settlement Trust Interest
- Introduction to Coal Trusts
- Treasure State Endowment Fund Interest
- Treasure State Endowment Regional Water System Fund Interest
- Big Sky Economic Development Trust Interest
- Resource Indemnity Tax
- Resource Indemnity Trust Interest

# School Trust Land Interest and Income

2011 Biennium

## Revenue Description

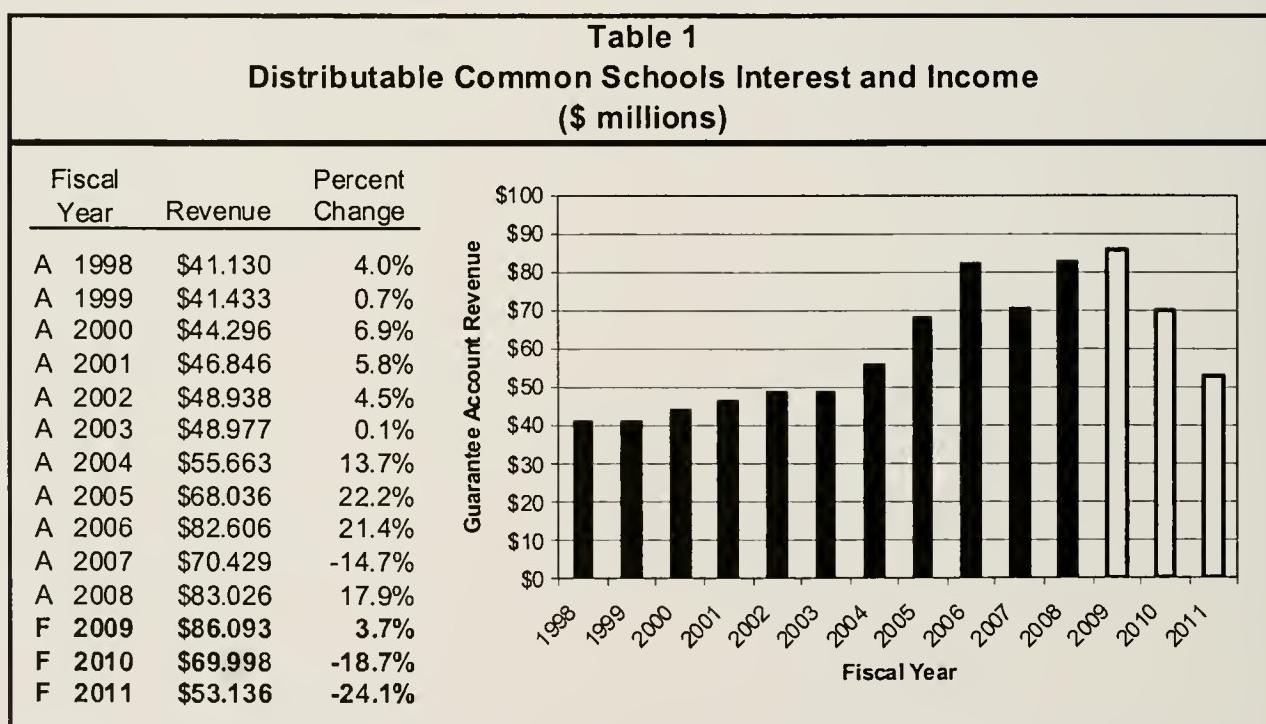
The United States Congress granted public lands to the state of Montana by the Enabling Act in 1889 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions. The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested in bonds. Of the interest income, 5% percent is retained by the trust fund corpus, and 95% of the interest earned by the trust fund, along with other income from the trust lands, is considered distributable. The distributable income from the common school trust land is deposited in the guarantee account for spending on public schools. The distributable income from the other trust lands goes to state special revenue accounts. Costs of administering state lands are deducted from allocations of the income produced from mineral royalties, property sales and leases.

Table 1 shows actual distributable income from the Common School trust for FY 1998 through FY 2008 and forecasted revenue for FY 2009 through FY 2011.

The decrease in revenue in FY 2010 is primarily due to the changing distribution of mineral royalties to the trust fund corpus rather than common schools. This change is scheduled to occur in FY 2010.

**Table 1**  
**Distributable Common Schools Interest and Income**  
**(\$ millions)**



School interest and income was deposited in the general fund through FY 2001. Because of SB 495 (2001 Session) and HB 7 (2002 Special Session) a new special revenue account, the guarantee account, was created. Beginning in FY 2002, school trust interest and income is deposited in the guarantee account rather than the general fund.

Revenue increased in FY 2002, because SB 495 resulted in a loan of \$46 million from the coal trust to the school trust fund. The higher school trust fund balance increased interest earnings. SB 495 also allowed \$138.9 million in net mineral royalties to be distributed to common schools rather than the trust fund corpus. It is forecast that by FY 2010, common schools will have received \$138.9 million from mineral royalties. At this point, mineral royalty will no longer be distributed to common schools, but rather to the trust fund corpus to generate interest revenue.

## **Significant Factors**

In FY 2008 the state of Montana reached an agreement in settlement of litigation under Montana's Hydroelectric Resources Act. The annual fees represent the state's share of net benefits to the trust land riverbed contributes to the hydroelectric project as a whole. Two lease agreements were executed, and one agreement is being contested. The company scheduled to pay this lease has appealed the District Court decision to the Supreme Court. If the protest is successful, then both companies will pay less, and revenue to common schools will be less. Only the revenue from the signed agreement is being considered in this revenue estimate.

## **Forecast Methodology**

**Step 1:** Total interest earnings from the trust and Legacy fund are based on interest rate forecasts described in the *Interest Rate Introduction* section.

**Step 2:** The Common School portion of the total Trust fund is then estimated and applied to yield interest income.

**Step 3:** Agricultural and grazing rentals are determined based on the estimated value of wheat in Montana, the estimated price of cattle, and trends in revenue collections for these types of rentals.

**Step 4:** School trust non-royalty mineral income is based on projections provided by the Department of Natural Resource Conservation (DNRC).

**Step 5:** Timber revenue is based on projections by DNRC, long term trends, and executive budget recommendations. The price of timber, along with decisions about the amount of land to be harvested, could have an effect on trust land revenues.

**Step 6:** Mineral royalties are calculated based on projections for DNRC and price estimates based on Global Insight forecasts.

**Step 7:** All other revenue to the Common School trust is forecast based on communications with DNRC and long term trends.

**Step 8:** All the pieces are added together and distributed appropriately.

Total projected revenue by income source for FY 2009 through FY 2011 is shown in Table 2.

**Table 2**  
**Projected Common School Trust Income**  
**(\$ millions)**

Source	FY 2009	FY 2010	FY 2011
Trust and Legacy Interest Income	\$23.262	\$23.815	\$25.040
Agriculture and Grazing Revenue	\$18.606	\$16.615	\$16.078
Non-Royalty Mineral Revenue	\$17.052	\$6.510	\$6.470
Timber Revenue	\$7.082	\$7.882	\$5.575
Mineral Royalties Revenue	\$24.705	\$20.888	\$24.056
Other Revenue	\$6.731	\$6.970	\$7.790
<b>Total Revenue</b>	<b>\$97.439</b>	<b>\$82.680</b>	<b>\$85.008</b>

Table 3 shows gross revenue, estimated administrative expenses, allocation and net revenue to schools for FY 2009 through FY 2011. Future administrative expenses are based on executive budget recommendations for FY 2009 through FY 2011.

**Table 3**  
**School Trust Income Allocation to the Guarantee Fund**  
**and Distribution to Sub Accounts**  
**( $\$$  millions)**

Fiscal Year	Actual		Projected		
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Income</b>					
Investment Income	\$24.541	\$23.428	\$23.262	\$23.815	\$25.040
Agriculture and Grazing Rents	\$16.465	\$18.690	\$18.606	\$16.615	\$16.078
Non-Royalty Mineral Income	\$6.006	\$5.934	\$17.052	\$6.510	\$6.470
Timber Revenue < 18 mmbf	\$4.502	\$5.368	\$5.034	\$5.160	\$4.775
Licenses and Other Income	\$3.032	\$7.312	\$6.731	\$6.970	\$7.790
<b>Subtotal</b>	<b>\$54.547</b>	<b>\$60.732</b>	<b>\$70.686</b>	<b>\$59.070</b>	<b>\$60.153</b>
<b>Expenses</b>					
Resource Development Account	\$0.722	\$0.800	\$0.870	\$0.870	\$0.870
Timber Sales Account	\$2.573	\$3.117	\$3.400	\$3.795	\$3.795
TAC Expense	\$0.000	\$0.000	\$0.000	\$0.245	\$0.245
Recreational Use Account	\$0.091	\$0.086	\$0.090	\$0.090	\$0.090
SB 137 Commercial Leasing Account	\$0.057	\$0.057	\$0.063	\$0.063	\$0.063
<b>Total Expenses</b>	<b>\$3.444</b>	<b>\$4.060</b>	<b>\$4.422</b>	<b>\$5.062</b>	<b>\$5.062</b>
Income Less Expenses	\$51.103	\$56.671	\$66.264	\$54.008	\$55.091
Distributable Income (95% of Income Less Expenses)	\$48.548	\$53.838	\$62.951	\$51.308	\$52.336
Plus 100% Timber Revenue > 18 mmbf	\$0.896	\$1.949	\$2.048	\$2.722	\$0.800
<b>Net Income (Excluding Mineral Royalties)</b>	<b>\$49.444</b>	<b>\$55.786</b>	<b>\$64.999</b>	<b>\$54.030</b>	<b>\$53.136</b>
<b>Mineral Royalties</b>					
Mineral Royalties	\$24.093	\$31.048	\$24.705	\$20.888	\$24.056
TAC Expense	\$3.108	\$3.809	\$3.610	\$3.610	\$3.610
Less Trust and Legacy Mineral Revenue	\$0.000	\$0.000	\$0.000	\$1.310	\$20.445
Net Mineral Royalties	\$20.985	\$27.239	\$21.095	\$15.968	\$0.000
<b>Total Guarantee Fund Income</b>	<b>\$70.429</b>	<b>\$83.026</b>	<b>\$86.093</b>	<b>\$69.998</b>	<b>\$53.136</b>
<b>Distribution of Guarantee Fund Income</b>					
SB 495 Coal Trust Loan Principal	\$19.473	\$11.574	\$0.000	\$0.000	\$0.000
SB 495 Coal Trust Loan Interest	\$1.505	\$0.283	\$0.000	\$0.000	\$0.000
Technology Acquisition Account	\$0.896	\$1.949	\$2.048	\$2.722	\$0.800
School Facility Improvement Account	\$0.000	\$15.383	\$21.095	\$15.968	\$0.000
School Equalization - Base Aid (River Leases 95%)	\$0.000	\$3.800	\$3.962	\$4.078	\$4.627
School Equalization - Base Aid	\$48.554	\$50.037	\$58.989	\$47.229	\$47.709
<b>Total Guarantee Fund Distribution</b>	<b>\$70.429</b>	<b>\$83.026</b>	<b>\$86.093</b>	<b>\$69.998</b>	<b>\$53.136</b>

## Data Sources

Historical Interest income information was provided by the State Street Bank and BOI monthly reports. Historical wheat and cattle data is from the USDA's website, [http://www.nass.usda.gov/Statistics\\_by\\_State/Montana/](http://www.nass.usda.gov/Statistics_by_State/Montana/). Forecasts for wheat and cattle prices were obtained from the United States Department of Agriculture's February 2008 Long Term Projections available at <http://usda.mannlib.cornell.edu/MannUsda/viewStaticPage.do?url=http://usda.mannlib.cornell.edu/usda/ers/94005/.>

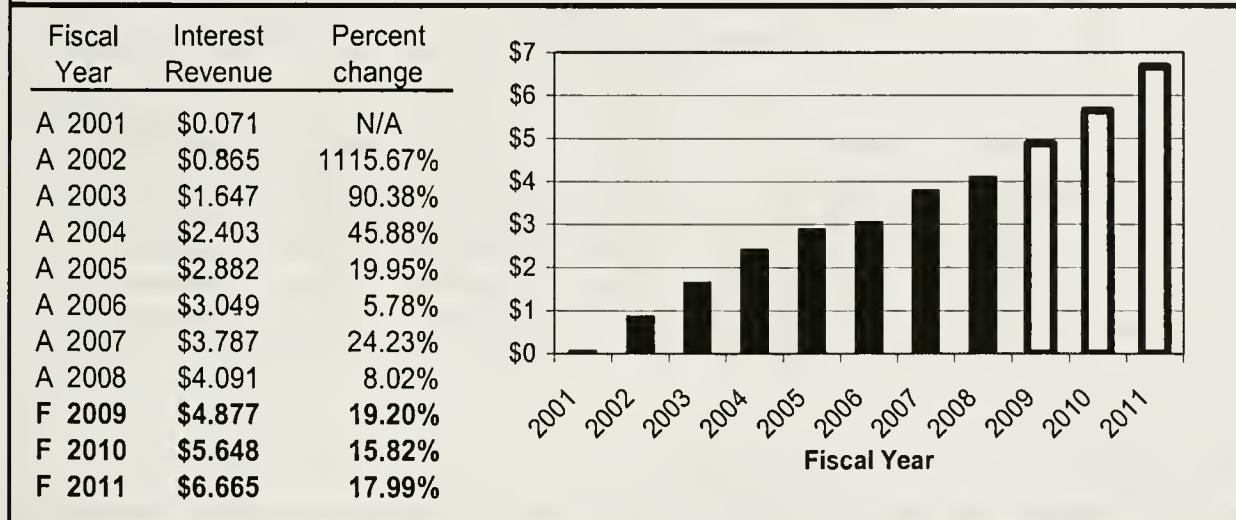
# Tobacco Settlement Trust Interest

2011 Biennium

## Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a special revenue account and may be appropriated by the Legislature for tobacco prevention and health care programs (17-6-603, MCA).

**Table 1**  
**Tobacco Settlement Trust Spendable Interest**  
**(\$ millions)**



The tobacco settlement trust was established in January 2001 following passage of Constitutional Amendment 35 in the November 2000 election. Spendable interest is the portion of tobacco trust interest that is not retained by the trust. Tobacco trust interest revenue is growing rapidly, because the trust fund balance is growing with the settlement payments made each year.

## Forecast Methodology

There are four steps to forecasting interest revenue from the tobacco trust fund:

**Step 1:** The annual average balance of the fund is projected. The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.

**Step 2:** The annual average balance by investment type is projected. The fund balance is invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). STIP and TFBP are managed by the Board of Investments and forecasts of annual rates of return for STIP and TFBP are explained in the *Interest Rate Introduction*.

**Step 3:** Interest earnings are forecast by multiplying the balance by the interest rate.

**Step 4:** The STIP and TFBP interest rates are expected to change throughout the 2011 biennium. However, total tobacco trust fund income will continue to increase each year, because the increasing trust fund balance offsets lower interest rates to the extent that lower interest rates are realized.

## Distributions

Table 2 summarizes actual and projected trust fund balances, interest rates, interest earnings, and allocation of interest earnings from FY 2008 through FY 2011. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

**Table 2**  
**Tobacco Trust Fund**  
**Fund Balance, Rate, Interest Earnings, and Allocation**  
**(\$ millions)**

Fiscal Year	Fund Balance, Rate, and Earnings			Allocation	
	Tobacco Trust Fund Balance	Tobacco Trust Rate of Return	Tobacco Interest Earnings	Tobacco Trust Retained Earnings	State Special Revenue Account
A 2008	\$82.701	x 5.50%	= \$4.546	\$0.455	\$4.091
F 2009	\$96.857	x 5.59%	= \$5.419	\$0.542	\$4.877
F 2010	\$111.233	x 5.64%	= \$6.276	\$0.628	\$5.648
F 2011	\$125.815	x 5.89%	= \$7.405	\$0.741	\$6.665

## Data Sources

Tobacco trust balances and earnings are from the Board of Investments and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Master Settlement Agreement Revenue estimation*. Projections of the STIF and TFBP interest rates are from *Interest Rate Introduction*.

# Introduction to Coal Trust Interests

2011 Biennium

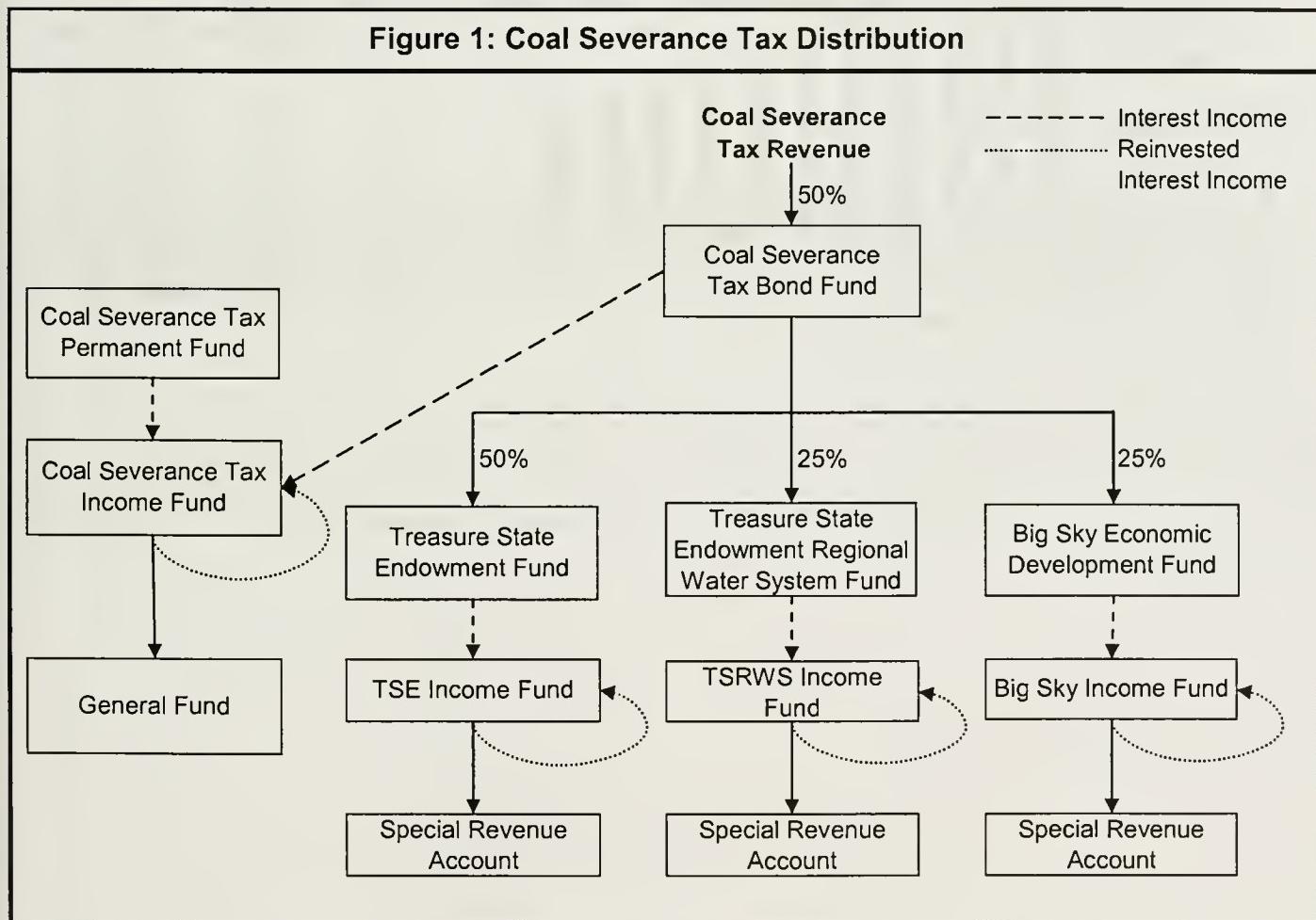
## Revenue Description

Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest income from this principal may be appropriated, but the principal itself is inviolate unless approved by  $\frac{2}{3}$  of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following permanent funds. (17-5-703, MCA)

- coal severance tax bond fund
- coal severance tax permanent fund
- treasure state endowment fund
- treasure state endowment regional water system fund
- big sky economic development fund

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund. The revenue is then distributed to the various accounts as shown in Figure 1.

Figure 1: Coal Severance Tax Distribution



## Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds, called coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural

Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the beginning of a fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds in the next twelve months. This amount is maintained as a reserve balance in the bond fund.

A portion of the reserve balance in the bond fund is invested in the short term investment pool (STIP). This investment averages about \$6 million per year, and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 50% to the Treasure State Endowment fund, 25% to the Treasure State Endowment Regional Water System fund, and 25% to the Big Sky Economic Development fund.

## Risks

- The Federal Open Market Committee (FOMC) may decide to lower interest rates even further as a way to encourage economic growth.
- It is possible the FOMC will begin to increase the federal funds rate more rapidly than anticipated if they feel inflation threatens the health of the national economy.
- If the national economy were to enter a deep recession, there will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.
- The amount of coal severance tax revenue deposited into the balance of the fund will have an affect on the interest earnings.

## Coal Severance Tax Permanent Fund

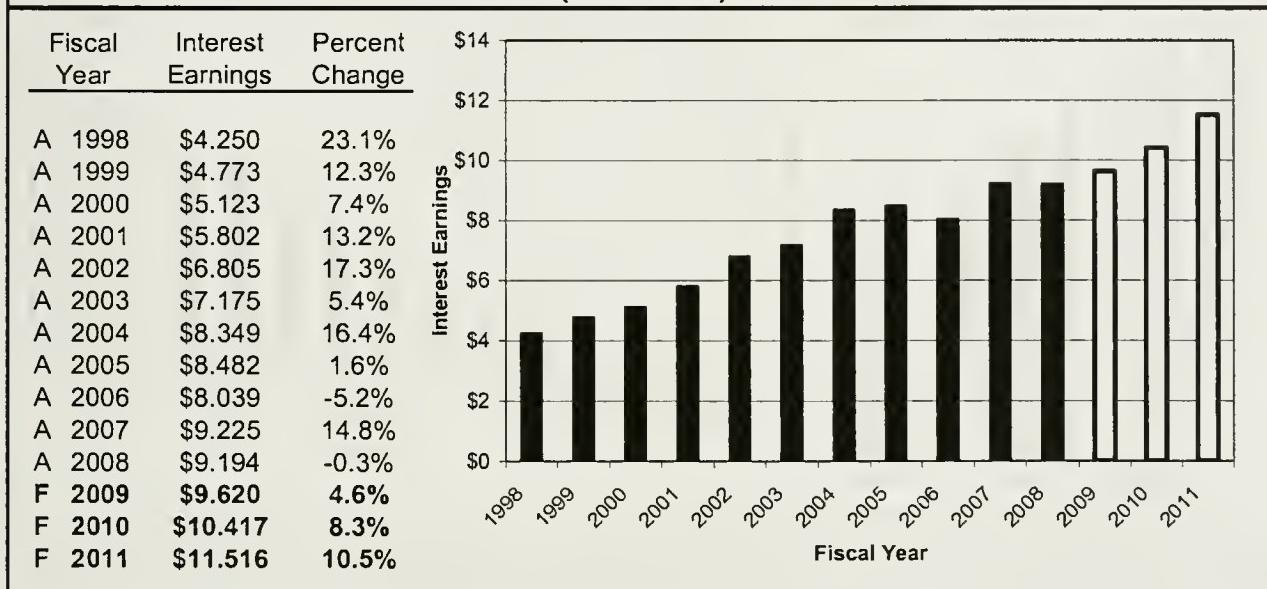
The coal severance tax permanent fund (permanent fund) is the original coal tax trust fund. The permanent fund does not currently receive any coal severance tax revenue, but it earns interest income. The permanent fund balance in FY 2008 was \$532 million and 36% was invested in loans, 2% was invested in STIP, and the remaining 62% was invested in TFBP. The interest earnings from the permanent fund are deposited into the coal severance tax income fund. Currently, coal severance tax permanent fund receives no revenue from severance tax. General fund interest earning is discussed in the Coal Trust Interest Earning section.

## Treasure State Endowment Fund

The Treasure State Endowment (TSE) fund is used for local government projects improving drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges.

The coal tax contributions to the TSE have varied across years. From FY 2001 to FY 2003, the trust fund received 37.5% of net coal tax collections. Deposits to the trust fund fell in FY 2004, because the TSE fund allocation dropped to 25% of net coal tax collections (SB 10, 2003 Session).

**Table 1**  
**Treasure State Endowment Fund Interest Earnings**  
**(\$ millions)**

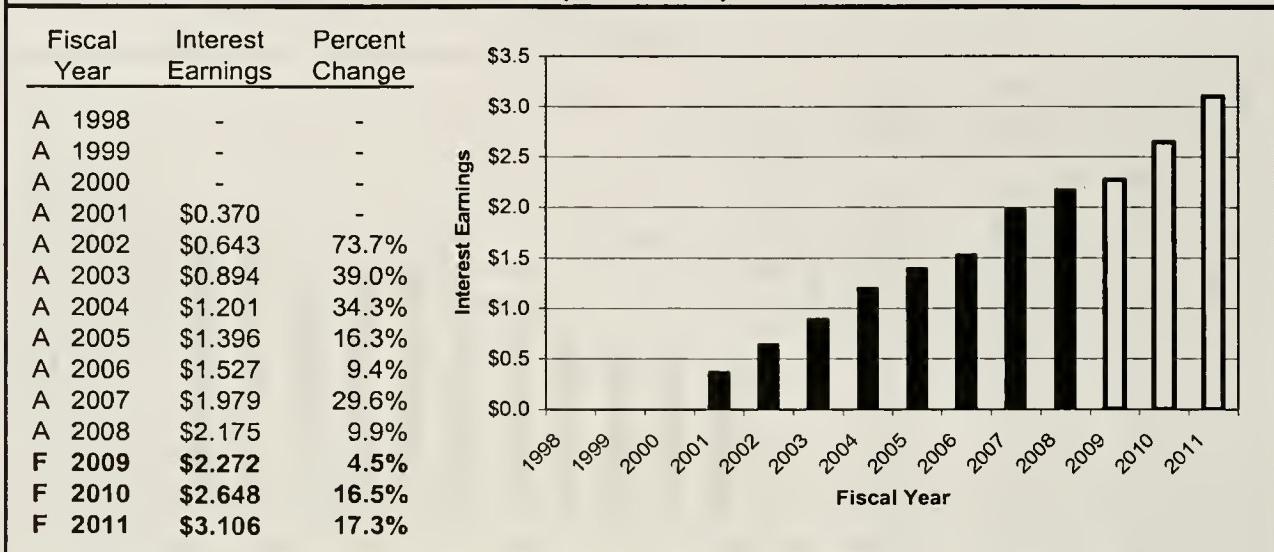


The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or 25% of coal severance tax revenue. The fund balance at the end of FY 2008 was \$159 million with 98% of the balance invested in TFBP, 1% invested in loans, and less than 1% invested in STIP. The interest income from the TSE fund is deposited in the TSE income fund, which earns reinvested interest income from STIP investments. The money needed for local government projects is transferred from the income fund to a special revenue account for distribution.

## Treasure State Endowment Regional Water System Fund

The treasure state endowment regional water system fund (TSRWS) provides funding for regional water projects. Funds may be used to match funds for construction of water systems, pay debt service on water system bond issues, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans.

**Table 2**  
**Treasure State Endowment Regional Water System Fund**  
**Interest Earnings**  
**(\$ millions)**

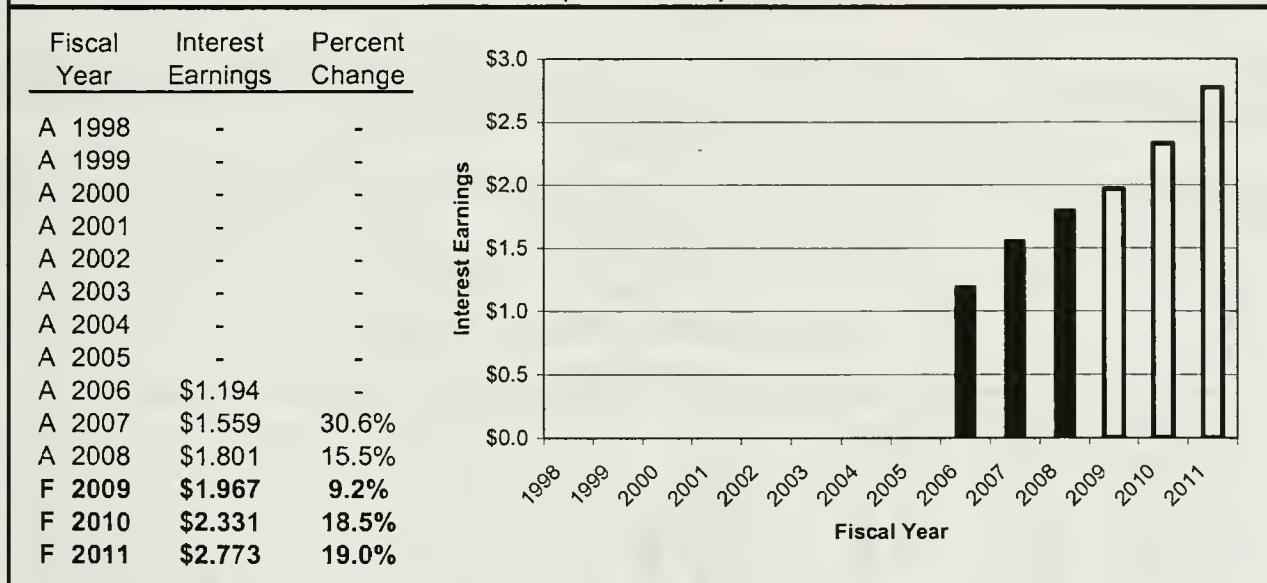


TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2008 was \$39 million, which was invested 99% in TFBP and 1% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, which is invested in STIP. Funds needed for projects are transferred to a special revenue account for distribution.

## Big Sky Economic Development Fund

On July 8, 2005, \$20 million was taken from the permanent fund to create the Big Sky Economic Development (Big Sky) Fund. The interest income from the Big Sky Fund provides financial assistance for economic development to local governments and certified regional development corporations.

**Table 3**  
**Big Sky Economic Development Fund Interest Earnings**  
**(*\$ millions*)**



The Big Sky Fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2008 was \$35 million. This balance was invested 99% in TFBP and 1% in STIP. Income from this investment is transferred to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the Big Sky Fund and earns interest.

### Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and the state accounting system. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA. The Department of Natural Resources and Conservation Annual Report (2005) provided information on the Coal Severance Tax Bond Fund and debt service account.

# Resource Indemnity Tax

2011 Biennium

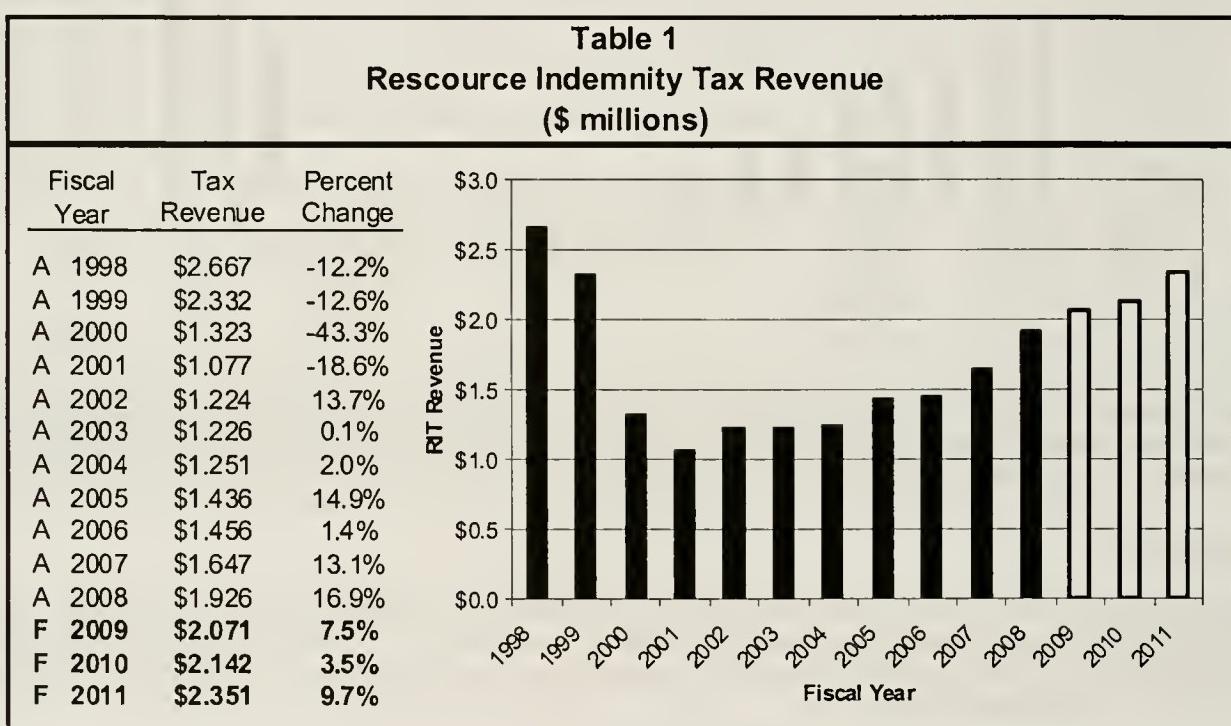
## Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the Resource Indemnity Tax or RIT) funds the Resource Indemnity Trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Until the Resource Indemnity Trust Fund balance reached \$100 million, 50% of the Resource Indemnity Tax was deposited in the trust fund. The fund balance reached \$100 million in December 2001, and this allocation ceased. Under current law, the tax is deposited into several state special revenue accounts.

Table 1 shows actual Resource Indemnity Tax revenues for FY 1998 through FY 2008 and forecasted revenue for FY 2009 through FY 2010.

**Table 1**  
**Resource Indemnity Tax Revenue**  
**(\$ millions)**



The tax rates for RIT vary depending on the type of mineral being extracted.

- Talc's tax rate is \$25 plus an additional 4% of the gross value of the talc produced in excess of \$625 in the prior calendar year.
- Coal's tax rate is \$25 plus an additional 0.4% of the gross value of the coal produced in excess of \$6,250 in the prior calendar year.
- Vermiculite's tax rate is \$25 plus an additional 2% of the gross value of the vermiculite produced in excess of \$1,250 in the prior calendar year.
- Limestone's tax rate is \$25 plus an additional 10% of the gross value of the limestone produced in excess of \$250 in the prior calendar year.
- Garnet and its associated byproducts tax rate is \$25 plus an additional 1% of the gross value of the limestone produced in excess of \$2,500 in the prior calendar year.
- All other mineral's tax rate (excluding metals, oil, and natural gas) is \$25 and an additional 0.5% of the gross value of the product in excess of \$5,000 in the prior calendar year.

## Forecast Methodology

There are 2 steps in forecasting RIT revenues:

**Step 1:** Estimate the amount of revenue from coal production. Coal production is increased proportionally by the same amount as the forecasted coal production in the *Coal Severance Tax Revenue* estimate.

**Step 2:** All other minerals that pay the Coal Severance Tax are projected to increase at the same rate as the Global Insights forecast for minerals and mineral product's producer price index.

Table 2 shows the actual and forecasted and RIT revenues from coal production, all other mineral production.

Table 2 Resource Indemnity Tax (\$ millions)			
Fiscal Year	Coal	Other Minerals	Total
A 2001	\$0.952	+ \$0.125	= \$1.077
A 2002	\$0.999	+ \$0.225	= \$1.224
A 2003	\$0.963	+ \$0.262	= \$1.226
A 2004	\$0.966	+ \$0.285	= \$1.251
A 2005	\$1.109	+ \$0.328	= \$1.436
A 2006	\$1.087	+ \$0.370	= \$1.456
A 2007	\$1.212	+ \$0.435	= \$1.647
A 2008	\$1.366	+ \$0.560	= \$1.926
F 2009	\$1.480	+ \$0.591	= \$2.071
F 2010	\$1.593	+ \$0.550	= \$2.142
F 2011	\$1.796	+ \$0.555	= \$2.351

## Distribution

Table 3 shows the actual and forecasted distribution of the RIT revenue for FY 2001 through FY 2011.

Table 3  
Resource Indemnity Tax Revenue Allocation  
(\$ millions)

Fiscal Year	Resource Indemnity Trust	CERCLA match debt service fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Reclamation and Development Grants	Natural Resource Workers' Scholarship	Orphan Share	Total
A 2001	\$0.538	\$0.000	\$0.300	\$0.000	\$0.000	\$0.000	\$0.000	\$0.119	\$0.000	\$0.119	\$1.077
A 2002	\$0.612	\$0.000	\$0.300	\$0.000	\$0.000	\$0.000	\$0.000	\$0.156	\$0.000	\$0.156	\$1.224
A 2003	\$0.000	\$0.000	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.430	\$0.150	\$0.280	\$1.226
A 2004	\$0.000	\$0.000	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.442	\$0.000	\$0.442	\$1.251
A 2005	\$0.252	\$0.000	\$0.114	\$0.000	\$0.000	\$0.000	\$0.000	\$0.535	\$0.094	\$0.442	\$1.436
A 2006	\$0.000	\$0.188	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.451	\$0.000	\$0.451	\$1.456
A 2007	\$0.000	\$0.264	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.509	\$0.000	\$0.509	\$1.647
A 2008	\$0.000	\$0.273	\$0.366	\$0.150	\$0.284	\$0.284	\$0.568	\$0.000	\$0.000	\$0.000	\$1.925
F 2009	\$0.000	\$0.272	\$0.366	\$0.150	\$0.321	\$0.321	\$0.641	\$0.000	\$0.000	\$0.000	\$2.071
F 2010	\$0.000	\$0.270	\$0.366	\$0.150	\$0.339	\$0.339	\$0.678	\$0.000	\$0.000	\$0.000	\$2.142
F 2011	\$0.000	\$0.270	\$0.366	\$0.150	\$0.391	\$0.391	\$0.782	\$0.000	\$0.000	\$0.000	\$2.351

The Resource Indemnity Tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the Hazardous Waste/CERCLA state special

revenue account (75-10-621, MCA), the Environmental Quality Protection Fund (75-10-704, MCA), and the Natural Resource Projects state special revenue account (15-38-302, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund must allocated the required amount to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA).

Second, \$0.366 million is distributed to the groundwater assessment account. In FY 2003 the groundwater assessment account allocation increased from \$0.300 million to \$0.366 million (SB 322, 2001 Session). In FY 2005 the groundwater assessment account received only \$0.114 million due to a correction from a previous error in distribution.

Third, 25% of the remaining revenue is distributed to the Hazardous Waste /CERCLA state special revenue account, 25% is distributed to the Environmental Quality Protection Fund, and 50% to the Natural Resource Projects state special revenue account.

## **Data Sources**

Historical allocations were obtained from SABHR MTGL0109 report, historical RIT production was obtained form a Department of Revenue GENTAX data extract, price forecast were from Global Insight's National Economic Forecast.

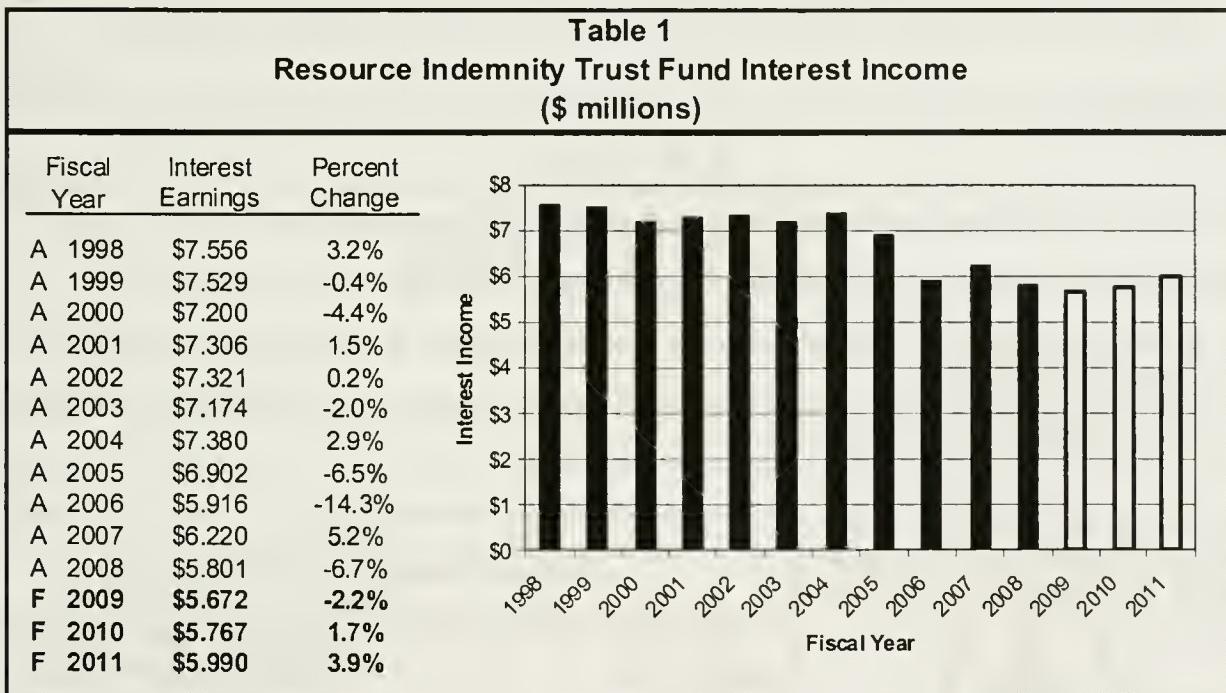
# Resource Indemnity Trust Interest

2011 Biennium

## Revenue Description

Title 15, Chapter 38, MCA, created a Resource Indemnity Trust (RIT) Fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage from mineral development. The trust was to be funded with proceeds from the Resource Indemnity Tax until the trust balance reached \$100 million, which occurred in December 2001. Deposits from the Resource Indemnity Tax ceased at that point, and the balance has remained at \$100 million. Income from the trust fund is used to fund environmental and natural resource programs.

Table 1 shows actual interest income from the RIT fund from FY 1998 to FY 2008 and forecasted income for FY 2009 through FY 2011.



## Forecast Methodology

The interest income is forecast in two steps:

**Step 1:** Estimate the balance of the RIT fund.

**Step 2:** Apply the appropriate interest rates forecast in the *Interest Rates Introduction* section.

Table 2 shows the actual and forecasted average balance, interest rates, and fund balance for FY 2000 through FY 2011.

## Distribution

The revenue distribution of the RIT interest revenue is defined in section 15-35-202, MCA. Some of the accounts receive a fixed allocation per biennium, some accounts receive a fixed allocation per fiscal year, some accounts receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made, and some accounts receive both a fixed and a percentage allocation.

In the first year of each biennium the following accounts receive these fixed allocations:

- \$175,000 is allocated to the environmental contingency account until the account balance reaches \$750,000 (75-1-1101, MCA);
- \$50,000 is allocated to the oil and gas production damage mitigation account until the account balance reaches \$200,000 (82-11-161, MCA); and
- \$500,000 is allocated to the water storage account (85-1-631, MCA);

Each fiscal year the following accounts receive these fixed allocations:

- \$240,000 is statutorily appropriated to the environmental science and water quality program at MSU-Northern (15-38-202, MCA);
- \$300,000 is allocated to the groundwater assessment account (85-2-905, MCA). If the account balance reaches \$660,000, this allocation is retained by the resource indemnity trust.
- \$500,000 is allocated to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program (87-1-283, MCA). HB 9 (2002 Special Session) reduced the FY 2005 allocation to \$350,000.

Each fiscal year any funds remaining after all fixed allocations have been made are distributed to the following accounts in these proportions:

- 26% of remaining funds are allocated to the hazardous waste/CERCLA account (75-10-621, MCA); and
- 9% of remaining funds are allocated to the environmental quality protection fund (75-10-704, MCA).

Each fiscal year the following accounts receive fixed allocations and a proportion of the remaining funds.

- \$2 million and 30% of remaining funds are allocated for grants in the renewable resource grant and loan account (85-1-604, MCA);
- \$1.5 million and 35% of remaining funds are allocated for grants to the reclamation and development grant account (90-2-1104, MCA);

Table 2 shows the distribution of RIT interest for FY 2008 and the forecast distribution for FY 2009 through FY 2010.

#### Data Sources

Investment balances and interest earnings data was obtained from the Board of Investments and SABHRS.

**Table 2**  
**Resource Indemnity Trust Interest Allocation**  
**(\$ millions)**

Entity	Actual	Forecast		
	FY 2008	FY 2009	FY 2010	FY 2011
Total Revenue	\$5.801	\$5.672	\$5.767	\$5.990
Biennial Fixed Allocations				
Oil & Gas Damage Mitigation	\$0.050	\$0.000	\$0.050	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
Annual Fixed Allocation				
Natural Resources Projects	\$3.500	\$3.500	\$3.500	\$3.500
Ground Water Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Future Fisheries	\$0.500	\$0.500	\$0.500	\$0.500
Environmental Contingency	\$0.175	\$0.175	\$0.175	\$0.175
Remainder	\$0.776	\$1.197	\$0.742	\$1.515
Annual Percentage Allocations				
Natural Resource Operations (65%)	\$0.504	\$0.778	\$0.483	\$0.985
Hazardous Wast/CERCLA (26%)	\$0.202	\$0.311	\$0.193	\$0.394
Environmental Quality Protection (9%)	\$0.070	\$0.108	\$0.067	\$0.136



GOVERNOR  
BRIAN SCHWEITZER

STATE OF MONTANA

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## INDEX SECTION 11

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING



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